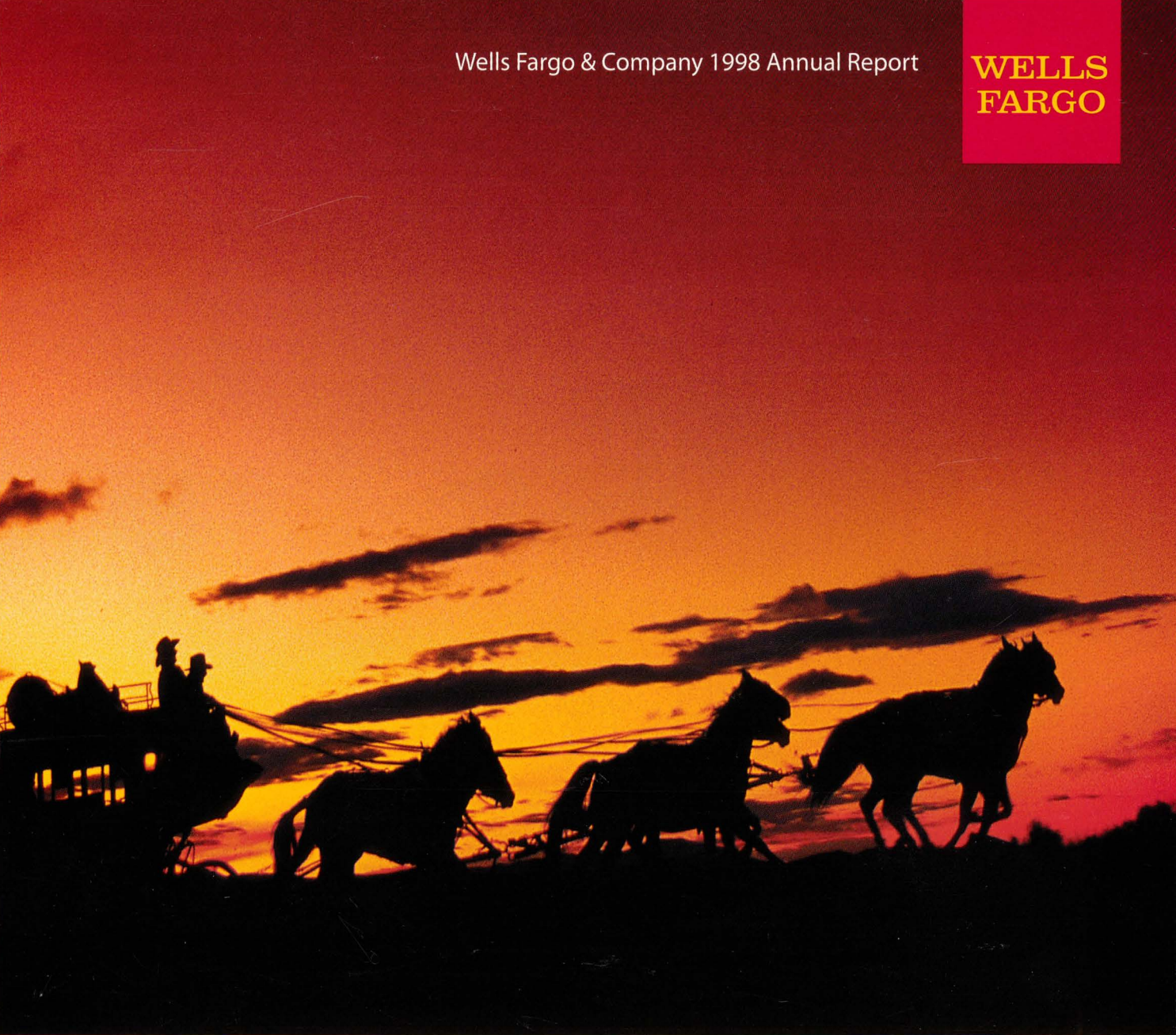




brand new

This PDF is a scanned version of a historical document initially released in print form. It has been made as accessible as possible without significantly altering its appearance. Accessibility enhancements include tagging using Adobe Acrobat, providing alternate text for charts, graphs, and images, and adjusting text and background colors for better contrast. Font size and line spacing were left unchanged to preserve the document's appearance and content. If you require an accommodation, please contact us at 1-877-644-7819, send an email to wellsfargoadacoordinator@wellsfargo.com, or write to us at PO Box 6995 Portland, OR 97228-6995.

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Paul Hazen and Dick Kovacevich tell you about the brand new opportunities ahead for your company.

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WELLS FARGO & COMPANY

Wells Fargo & Company (NYSE: WFC) is a diversified financial services company — providing banking, insurance, investments, mortgage and consumer finance from almost 6,000 stores and other distribution channels across North America. We are the product of 1,500+ mergers in 147 years including, most recently, the merger involving Norwest Corporation and Wells Fargo & Company. This report presents combined results as if the merger had been in effect for all periods presented.

At year-end 1998, we had \$202 billion in assets, 7th largest among our U.S. peers. The market value of our stock was \$65.7 billion, ranking us 3rd among our U.S. peers and 7th among our global peers. We have a team of 102,000 very talented people.

Our corporate headquarters is in San Francisco, but we're decentralized so every local Wells Fargo store is a headquarters for satisfying all our customers' financial needs and helping them succeed financially.

Our trademark, the stagecoach, is the symbol of Wells Fargo's role in the development of the Western United States and stands for our pride in "coming through" for our customers, a hallmark of our company since 1852.

FORWARD LOOKING STATEMENTS

In this report we make forward looking statements about the company's financial condition, results of operations, plans, objectives and future performance and business. When we use the words "believe," "expect," "anticipate," "estimate," "may," "will" or similar expressions, we are making forward looking statements.

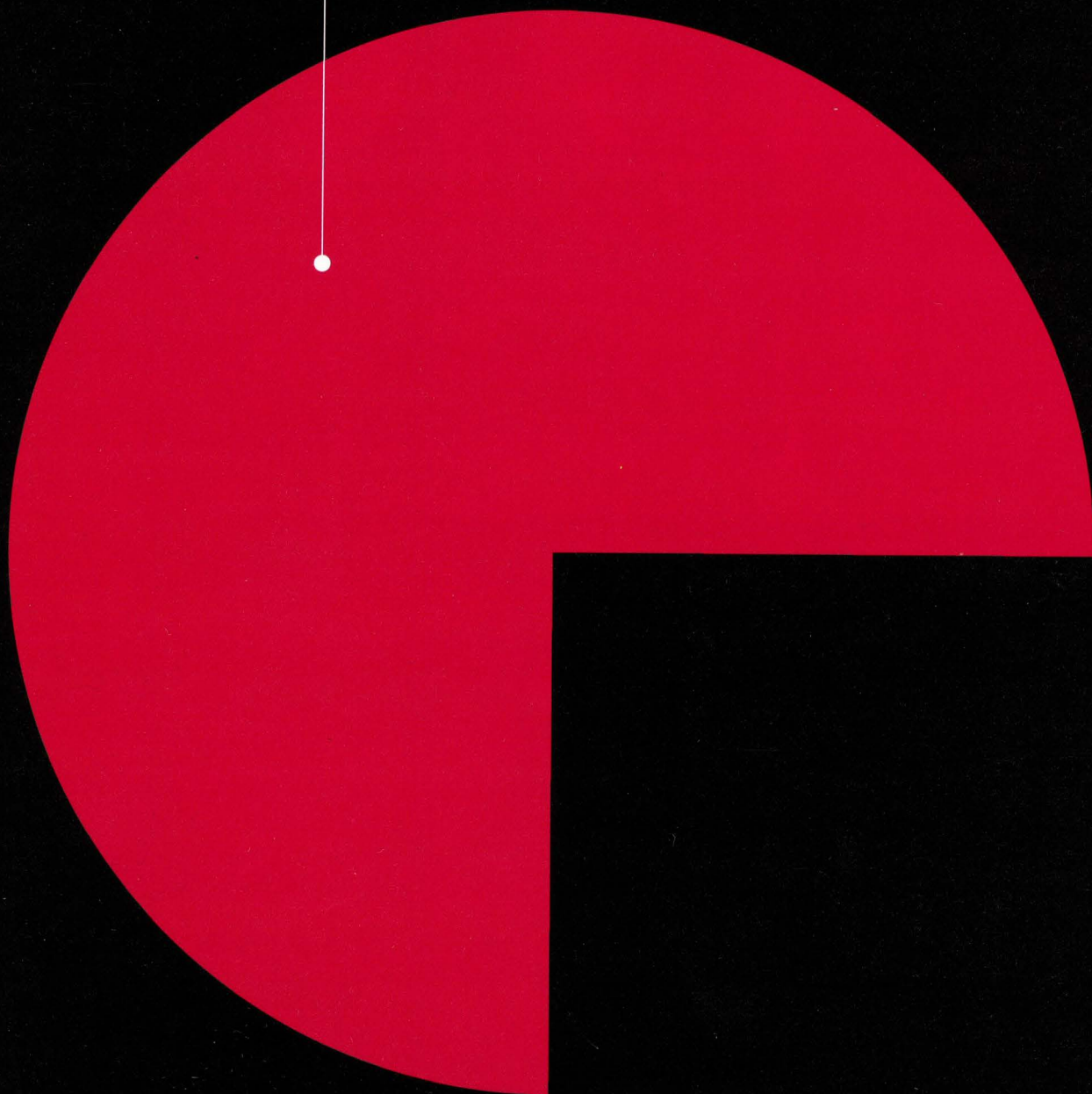
These forward looking statements involve inherent risks and uncertainties. A number of factors — many of which are beyond the control of the company — could cause actual results to differ from those in our forward looking statements. These factors include:

- changes in political and economic conditions, interest rate fluctuations,*
- technological changes (including the "Year 2000" data systems compliance issue),*
- customer disintermediation,*
- competitive product and pricing pressures in the company's geographic and product markets,*
- equity and fixed income market fluctuations,*
- personal and commercial customers' bankruptcies,*
- inflation,*
- changes in law,*
- changes in fiscal, monetary, regulatory and tax policies,*
- monetary fluctuations,*
- credit quality and credit risk management,*
- mergers and acquisitions,*
- the integration of merged and acquired companies,*
- success in gaining regulatory approvals when required.*

Also, actual results could differ from those predicted in our forward looking statements because of factors relating to the combination of the former Wells Fargo and the former Norwest Corporation, including the following: expected cost savings from the merger are not fully realized within the expected time frame or additional or unexpected costs are incurred; and costs or difficulties related to the integration of the former Wells Fargo and the former Norwest Corporation are greater than expected.

opportunities.

The new Wells Fargo has 15 million customers, but we have on average only about one-fourth of their financial services business. Opportunity!





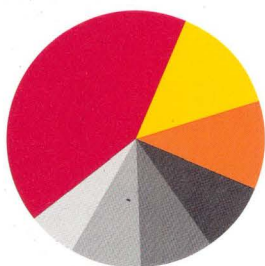
Plenty of market share growth opportunities are ahead. We're led by (from left): Chief Operating Officer Les Biller, Chairman Paul Hazen, President and CEO Dick Kovacevich, and Chief Financial Officer Rod Jacobs. They're the Office of the Chairman and involved as a team in all of the company's strategic decisions.

brand new opportunities

TO OUR OWNERS There are hundreds of thousands of words in this annual report. You need to remember only three. They sum up the exciting future of your company. *Brand — New — Opportunities*. Throughout this report, we describe the brand new opportunities ahead for our customers, team members, communities and for you, our owners. Your new company — the result of the recent merger of equals involving Norwest Corporation and Wells Fargo & Company — already is the premier *banking* franchise west of the Mississippi. Our vision is to become the premier *financial services* company in all of North America.

opportunities

Everywhere you look in the new Wells Fargo, there are new opportunities—to satisfy more of our customers' financial needs, to attract new customers, and to serve customers when, where and how *they* want to be served.



- Community Banking - 42%
- Specialized Lending - 14%
- Investments & Insurance - 11%
- Consumer Finance - 9%
- Home Mortgages - 9%
- Business Banking - 9%
- Commercial Real Estate - 6%

Approximate percent of after-tax profit based on historical average and future expectations.

DIVERSITY OF BUSINESSES

Our diversity of businesses makes us much more than a bank. We're a diversified financial services company. We're competing in a highly fragmented and fast growing industry: Financial Services. This helps us weather downturns that inevitably affect any one segment of our industry.

Yes, we're #1 in several important segments of the financial services industry. We're #1 in retail banking cross-sell among our peers, mortgage originations, small business lending, farm lending, online financial services, supermarket banking, student loans, commercial real estate lending and insurance agency sales by a banking organization. We're #1 in total stores across North America and total stores along the NAFTA¹ borders with Mexico and Canada. We're among the top five in middle-market lending, correspondent banking, auto finance, mutual funds under management and debit card transactions. We're proud of that leadership.

We'd much rather focus, however, on our potential for even more market share growth. Behind every one of those industry leading positions are tremendous untapped opportunities. These are the same kind of opportunities two entrepreneurs named Henry Wells and William G. Fargo

pursued 147 years ago after the California gold rush. They helped create the U.S. service economy — by reducing time and distance relative to money. They saw opportunity not just in what had been taken out of the ground but in what was yet to be mined. They were pioneers in cross-selling, too. They weren't content with a stagecoach transportation company. They wanted their customers' banking business, safe keeping business, delivery of goods business and mail business. They delivered products, services and information across the American frontier and the world.

It's the same for the new Wells Fargo today. We deliver products, services and information when, where and how the customer wants

them. We serve more than 15 million customers. The vast majority consider Wells Fargo their primary financial services provider. That seems impressive. But take a closer look. On average, we have only about *one-fourth* of the financial services business of those 15 million customers. *That means every day our own customers are giving three-fourths of their business to our competitors.*

That's opportunity. Starting on page 11, we examine our presence in four important areas of our industry. We show you the great opportunities we have to earn more of our customers' business in each of those areas — retail banking, mortgage and home equity lending, online banking and business banking. In each of those areas, "coming through" for our customers means not just handling transactions for them, it means building full-service relationships. We are in the money business. We help our customers become financially successful.

¹North American Free Trade Agreement

our performance

	% Change		
	1998	1997	1998/ 1997
(\$ in millions, except per share amounts)			
AS REPORTED			
FOR THE YEAR			
Net income	\$ 1,950	\$ 2,499	(22)%
Net income applicable to common stock	1,915	2,456	(22)
Earnings per common share	\$ 1.18	\$ 1.50	(21)
Diluted earnings per common share	1.17	1.48	(21)
Dividends declared per common share	.70	.615	14
Average common shares outstanding	1,621.5	1,634.6	(1)
Diluted average common shares outstanding	1,641.8	1,657.8	(1)
Profitability ratios			
Net income to average total assets (ROA)	1.04%	1.37%	(24)
Net income applicable to common stock to average common stockholders' equity (ROE)	9.86	12.81	(23)
Efficiency ratio	68.5%	62.8%	9
Average loans	\$106,205	\$104,137	2
Average assets	188,355	182,250	3
Average core deposits	123,801	120,489	3
Net interest margin	5.79%	5.86%	(1)
AT YEAR END			
Securities available for sale	\$ 31,997	\$ 27,872	15
Loans	107,994	106,311	2
Allowance for loan losses	3,134	3,062	2
Goodwill	7,664	8,062	(5)
Assets	202,475	185,685	9
Core deposits	132,289	122,327	8
Common stockholders' equity	20,296	19,315	5
Stockholders' equity	20,759	19,778	5
Tier 1 capital	12,412	11,511	8
Total capital (Tiers 1 and 2)	16,733	15,801	6
Capital ratios			
Common stockholders' equity to assets	10.02%	10.40%	(4)
Stockholders' equity to assets	10.25	10.65	(4)
Risk-based capital			
Tier 1 capital	8.08	8.16	(1)
Total capital	10.90	11.20	(3)
Leverage	6.58	6.72	(2)
Book value per common share	\$ 12.35	\$ 11.92	4
Team Members (active, full-time equivalent)	92,178	88,671	4
OPERATING BASIS*			
FOR THE YEAR			
Net income	\$ 2,906	\$ 2,499	16%
Net income applicable to common stock	2,871	2,456	17
Earnings per common share	\$ 1.77	\$ 1.50	18
Diluted earnings per common share	1.75	1.48	18
Profitability ratios			
Net income to average total assets (ROA)	1.54%	1.37%	12
Net income applicable to common stock to average common stockholders' equity (ROE)	14.52	12.81	13
Efficiency ratio	61.2%	62.8%	(3)
Net Income and Ratios Excluding Goodwill and Nonqualifying Core Deposit Intangible Amortization and Balances ("Cash" or "Tangible")†			
Net income applicable to common stock	\$ 3,421	\$ 3,031	13
Earnings per common share	2.11	1.85	14
Diluted earnings per common share	2.08	1.83	14
ROA	1.92%	1.78%	8
ROE	31.76	30.49	4
Efficiency ratio	57.0	57.8	(1)

*Excludes merger-related and other charges of approximately \$1,152 million (\$748 million after tax) and \$320 million (\$208 million after tax) of loan losses, mostly in Island Finance.

†Cash earnings are earnings before charges for goodwill (premium over the fair value of net assets acquired) and nonqualifying core deposit intangible (acquired after regulatory rule changes in 1992). Balance sheet values for these items have been excluded from the cash-basis ratios.

competitive advantages

Why are we so confident your company has what it takes to capitalize on these significant opportunities? To succeed in our industry, we believe a company has to have competitive advantages in seven key areas: geography, products and businesses, distribution, sales and service culture, efficiency, brand, and most important, people. We believe the new Wells Fargo is blessed with considerable strength in *all* seven.

1. GEOGRAPHY You couldn't ask for better places to do business. We're in the fastest growing markets in the world's best economy. The 21 states in which we distribute financial services products through our banks — from Ohio to California — are the best geography in the United States. Nine of the 21 are among the nation's 10 fastest growing states. Fifty percent of the projected U.S. population growth the next 10 years is expected to come from these states.

California, alone, has the world's seventh largest economy, the nation's largest housing market, the nation's largest small business market and the nation's largest farm economy. We're first, second or third in share of banking deposits in 83 percent of the markets in these 21 states. We also serve seven of the "10 Best Cities for Business" as rated by *Fortune* magazine (Austin, Texas; Las Vegas; Salt Lake City, Phoenix, San Jose; Portland, Ore.; and Denver).

2. PRODUCTS AND BUSINESSES Our line of products and breadth of businesses are perhaps the most diverse and extensive in our industry. We cover all financial services: retail and business banking, investments, insurance, consumer and commercial finance, commercial real estate, home mortgages, home equity, venture capital and capital markets. As you can see in the chart on page 4, our product diversity also creates earnings diversity. This enables us to weather downturns that inevitably affect any one segment of our industry. We rely less on lending than most of our peers. Forty-two percent of our revenue comes from a stream of fees we receive for operating services such as mortgage servicing, treasury management and insurance.

Our diversity of businesses makes us much more than a bank. We're a diversified financial services company. We're competing in a highly fragmented and fast growing industry. It's four times larger than banking and growing in the high single digits.

If we could pick one industry in which to compete and grow, we'd pick financial services. It's the engine for growth for any highly developed economy.

3. DISTRIBUTION Products are important but competitors can copy them quickly. The real customer value is the way you distribute products. We have the best, most extensive distribution system in our industry. We own our industry's largest network of stores — almost 6,000 of them — and more than 6,200 ATMs. We have about 1,000 supermarket banking stores, far more than any of our competitors. Those stores enable us to serve customers when, where and how they want to be served. They multiply our sales opportunities. Our *Phone Bank*SM centers last year handled more than 200 million calls and more than 13 million calls through our National Business Banking Center. We're the oldest and largest online financial services provider. Our 700,000+ online banking customers are a diverse group — California suburbanites to Indiana farmers. Our most active banking store is invisible. Last year, we handled more than 22 million Internet banking sessions, almost double the previous year, more than any other bank in the USA. Also, last year, we continued to develop www.wellsfargo.com as a destination site. We:

- signed up an average of more than 1,000 new online banking customers a day — including 10,000 Norwest customers who signed up in December 1998 and January 1999 in advance of any marketing campaign;
- became the first U.S. bank to offer instant decisions online for home equity loans;
- handled more than a half million Internet banking transactions for small business banking customers (more than double the previous year);
- launched stock trading on the Internet via our *WellsTrade*[®] service to give self-directed investors the convenience of doing both their banking and stock trading online;
- became the first U.S. bank to offer customers Wells Fargo credit card bills online; and
- opened two cyber-banking stores — in Seattle and Las Vegas — with ATMs and computer terminals that let our customers use the Internet free of charge.

4. SALES AND SERVICE CULTURE Over the years, Norwest and Wells Fargo developed somewhat different styles — reflecting their markets. • Norwest, more high touch. Wells Fargo, more high tech. This merger combines the best of those two styles in your new company. Our customers can choose financial services — when, where and how they want them.

Fortune magazine — using customer and industry surveys — ranked Norwest #1 for customer satisfaction in the banking industry, #1 “most admired” commercial bank in the USA last year and the #3 “most admired” bank in the world. Over the past 10 years, Norwest built a reputation for having the industry’s strongest sales and service culture. This reputation was backed by superior systems for tracking sales, customer profitability and customer information — using technology to personalize customer service. During those 10 years, Norwest also bought almost 100 banks and doubled their products sold per household. It did this by offering customers a broad product line and a better deal for doing all their business with Norwest. We intend to propagate effective technology — and a superior sales and service culture — across the entire new Wells Fargo. We expect every Wells Fargo business to refer all their customers to other businesses. We want to earn nothing short of all the business of every creditworthy customer. *We expect to sell at least one more product to every customer every year.* The more products we sell customers, the better deal they get, the more loyal they become, the more we know about them to serve them better, and the higher the return for Wells Fargo stockholders. Everyone wins — our customers, team members, communities and stockholders.

5. EFFICIENCY The “old” Wells Fargo brings to your new company a well-deserved reputation for efficiency and speed to market. In 1997, for example, it cost the “old” Wells Fargo 54.6 cents to earn a dollar of revenue, on a cash basis compared to 63.0 cents for the old Norwest. This superior ability to create greater value from scarce resources is the result of a “run it like you own it” and “know the numbers” culture. Operating expenses are tightly controlled — but at the same time we will not compromise when it comes to “doing it right for the customer.” We intend to propagate this culture of efficiency — along with a renewed focus on aggressive revenue growth and service excellence — across the new Wells Fargo. This will be especially important in 1999 and beyond as competition from non-banks, which have even lower costs, will continue to grow. We must be cost competitive so our customers can receive outstanding value.

The “old” Wells Fargo also had superior “speed to market.” That’s because its centralized lines of business — such as commercial and business banking, private client services and online banking — were responsible for success

across an entire product line or segment of customers. These businesses develop products, technology, sales standards and risk management that serve the entire franchise.

At the same time, our regional presidents — the leaders of our community banking sales and service culture — orchestrate the entire array of Wells Fargo products and services in their geography. In this way, we’ll continue to “Out Local the Nationals and Out National the Locals.SM” We want to offer better products and a broader product line than our *local* competitors so we can satisfy all our customers’ financial needs. We also want to continue to out-perform our *national* competitors by staying close to our customers in each of our communities, understanding their needs, and providing professional, personalized and timely service.

We continue to believe the best decisions are local decisions. From Indiana to California, decisions on lending, pricing, marketing and community investment will continue to be made by our bankers who live and work in those markets. They know their communities better than anyone else.

6. OUR BRAND It’s time tested. One hundred and forty-seven years old. That’s as old as the American West itself — and about as old as four of America’s most widely known brands combined: Disney, McDonald’s, Nike and Wal-Mart. Our brand and the stagecoach are two of the most widely recognized consumer symbols in the world. In the Western U.S. they have consumer awareness that approaches Coca-Cola. Our brand stands for speed, reliability, service, safe keeping, innovation, trust and for “coming through” for customers — wherever they live and wherever they want to go. Because of the promise it implies for customers, branding is as indispensable for a national financial services company as it is for a national retailer — or a national provider of automobiles, cereals or soft drinks.

7. PEOPLE All these competitive advantages are important. They’re meaningless, however, without talented team members, who care. Our brand does not serve our customers. People serve our customers.

Wells Fargo team members put their customers first. Products and technology can be duplicated — but we believe our people are more talented, more motivated, more energized than our competitors. They care about each other, care about their customers, care about their communities and care about their company. We believe it’s our people who give Wells Fargo a competitive advantage. That’s why the new Wells Fargo will continue to invest in attracting, retaining, motivating and rewarding the very best people in the financial services industry. We’re committed to fostering and building an inclusive culture that reflects the diversity of our markets. We view diversity as a great business opportunity.

momentum.

To celebrate the merger of Norwest and Wells Fargo — and incent our team members to find and implement more Best Practices* — we awarded *PartnerShares*® stock option grants of 200 shares in 1998 to all our eligible team members. The option vests and can be exercised by team members when our stock closes at or above \$70 a share or in five years, whichever comes first. This award recognizes the tremendous contributions team members are making to combine two outstanding companies into an even better performing new company.

* Ideas that improve customer service, keep customers and attract new ones, reduce costs or increase revenue

OUR THANKS

Nine outstanding leaders — who contributed immeasurably to the success of Norwest and Wells Fargo — retired from their respective boards of directors last year. We thank them for their vision, wisdom and leadership. Their legacy is the foundation for the future growth of the new Wells Fargo:

H. Jesse Arnelle was a co-founder of one of the first corporate law firms in the nation owned by African-Americans. He joined the Wells Fargo board in 1990.

Rayburn S. Dezember was chairman and CEO of Central Pacific Corporation, owner of American National Bank, which merged with Wells Fargo Bank in 1990, the year Ray joined the Wells Fargo board. He is a former director of the Federal Reserve Bank in San Francisco.

Robert K. Jaedicke, former dean of the Stanford Graduate School of Business, joined the Wells Fargo board in 1983 and was chair of the Examinations and Audits Committee.

Lloyd P. Johnson was chairman and CEO of Norwest from 1985 to 1993 and chairman from 1993 to 1995. His "control, profit and growth" strategy led the Norwest turn-around in the mid-1980s and produced 11 consecutive years of record operating results. Thanks to his leadership, we're known as one of the top performers in our industry.

Thomas L. Lee, chairman and CEO of the land development company, Newhall Land and Farming, is a respected authority on Southern California real estate. He joined the Wells Fargo board in 1996 from First Interstate Bancorp, where he had been a director since 1993.

Richard S. Levitt was chairman of our consumer finance subsidiary, Norwest Financial, from 1979 to 1987. He is the grandson of founder Jacob Levitt and spent 33 years with the company. His emphasis on accountability management, people development, quality of receivables and profitability enabled Norwest Financial to become known as a premier consumer finance company in North America.

Ellen M. Newman, founder and head of Ellen Newman Associates, had been a Wells Fargo director since 1976. She was the company's first consumer affairs advisor.

Carl E. Reichardt was chairman and CEO of Wells Fargo from 1983 to 1994 and retired from the Wells Fargo board in April 1998. Thanks to his leadership, Wells Fargo became the most profitable bank in the Western U.S. and one of the most efficient banks in the industry. During his tenure, the total return for Wells Fargo's common stock was 1,668 percent.

Richard J. Stegemeier, former chairman and CEO, Unocal Corporation, El Segundo, Calif., served on the Wells Fargo board from 1996 to 1998, on the Examinations and Audits, and the Management Development and Compensation Committees. He joined the Wells Fargo board from First Interstate Bancorp, where he had been a director since 1989.

INTEGRATING OUR TWO COMPANIES We're already one company operating under one corporate name, Wells Fargo. Norwest stores, however, won't start changing their name to Wells Fargo until the second half of 1999, many not until 2000. We're going to take our time to do it right. Our goal during the integration will be the same as it's always been: deliver a superior customer experience. Plans are important. Process is important. But most important is *execution* because that's how our customers will judge our work a year from now. We expect to make this integration as smooth as possible for our customers. We don't want to do anything to compromise a superior customer experience. We have two guiding principles. First, make every decision with the customer experience in mind. Second, execute to perfection.

HIGHER EARNINGS What benefits can this merger deliver for you, our owners? In short, higher earnings. We expect the new Wells Fargo will generate higher earnings per share growth than either company would have produced on its own. This includes the benefits of merger-related cost savings, increased cross-selling opportunities and a stream of more diverse earnings in fast growing states.

KEEPING TALENT The success of this integration will be measured by how many people we can retain from both companies — so they can continue to serve their customers and earn more of their customers' business.

Keeping as many talented team members as possible also is in your long-term best interests as an owner of the company. Good people are hard to find, especially in an economy with such low unemployment. We've made a very strong commitment to retain as many team members as we can. To that end, we've created a RETAIN initiative to help these valued team members find jobs in Wells Fargo where they can make the greatest contribution. Our RETAIN initiative includes processes for self-assessments, individual coaching, generating job leads and tailored career transition support. This process takes time and resources. It means passing up some short-term savings but still allows us to achieve our long-term efficiency goals. The pay-off — keeping as many talented team members as possible — is well worth the investment. The most important difference in strategy between Wells Fargo and our competitors is that at Wells Fargo we believe in people as a competitive advantage.

GETTING READY FOR YEAR 2000 One reason we're taking three years to integrate fully Norwest and Wells Fargo systems is the Year 2000 computer issue. From sometime in the fourth quarter 1999 to early 2000, we plan to stop virtually all

computer conversions related to the merger so we can focus on this top priority customer issue. We don't want to combine our systems when some of our commercial customers may encounter Year 2000 problems of their own. We're scheduled to resume integration in March 2000. Long before the merger, both Norwest and Wells Fargo had thorough Year 2000 plans, funded efforts underway, and detailed testing in place.

No organization can make blanket guarantees about the Year 2000 issue. We *can* assure you we have the team and the process in place to minimize any Year 2000 problems that might occur with our systems. We've fixed, replaced and tested practically all of the computer systems and equipment critical to our operations. We've been testing our systems with selected customers and vendors for some time now. We're working with our vendors and customers to determine if they're ready for the Year 2000.

Both Norwest and Wells Fargo have devoted significant resources for this project. Combined, we currently estimate our total Year 2000 expense will be approximately \$315 million. In addition, hundreds of team members from both companies have spent nearly two years checking that all our systems can read dates properly in the Year 2000. For more discussion of this important subject, please see page 42.

MOMENTUM Our diverse businesses, products and geography — and our talented team members — continue to produce outstanding results and give us great momentum for 1999. Last year Wells Fargo achieved record operating results, excluding merger-related and special charges. We expect that record of performance to continue. Including merger-related and other charges, earnings for 1998 were \$1,950 million, or \$1.17 per share. That compares with \$2,499, or \$1.48 per share for 1997. Earnings for the fourth quarter of 1998 were affected by merger-related and other charges of approximately \$1.2 billion — equal to a loss of .45 cents a share. Fourth quarter earnings also were affected by a provision for loan losses of approximately \$320 million — equal to a loss of .13 cents a share — above the level of prior quarters due to loan losses in Island Finance, our consumer finance subsidiary in the Caribbean and Central America. Even after these charges, the equity capital of the combined company is strong at 10.25 percent of assets and its regulatory capital ratios are well above regulatory minimums. Excluding merger-related and special charges, here's how your company performed in 1998:

	1998	1997	% increase
Earnings per share	\$1.75	\$1.48	18.2%
ROA	1.54%	1.37%	12.4%
ROE	14.52%	12.81%	13.3%

These measures of financial performance, we believe, are much more relevant for shareholders on a cash basis* which measures Wells Fargo's ability to support growth and pay dividends. On a *cash* basis the performance of your company was:

	1998	1997	% increase
Earnings per share	\$2.08	\$1.83	13.6%
ROA	1.92%	1.78%	7.86%
ROE	31.76%	30.49%	4.16%

*Cash earnings are earnings before charges for goodwill (premium over the fair value of net assets acquired) and non-qualifying core deposit intangible (acquired after regulatory capital rule changes in 1992). Balance sheet values for these items have been excluded from the cash-basis ratios.

A conservative financial position, a disciplined credit process, a fortified balance sheet and managing risk exposure by industry, geography and customer — these are hallmarks of the new Wells Fargo. At year-end 1998, we had almost \$4.41 of reserves for every \$1.00 of nonperforming loans (not accruing interest or restructured) — among the highest in our peer group. Nonperforming loans were a very low 0.7 percent of loans and leases, one of the best among our peers. We have no direct exposure to hedge funds and very limited international lending (less than 1 percent of all loans).

THE BEST TEAM IN FINANCIAL SERVICES It's easy to declare a merger of equals: It's much harder to make one work. The first phase of integrating Norwest and Wells Fargo has been remarkably smooth. The credit goes to tens of thousands of our loyal team members. Despite understandable anxiety and uncertainty about the future, they've worked with great dedication and patience behind the scenes for months — including many evenings and weekends and a lot of time away from their families and friends. They've done everything that could be asked of them and more. They're truly coming through — by doing what's right for our customers, our stockholders and for each other. They're the heart and soul of the new Wells Fargo.

We've accomplished a lot so far. We thoroughly assessed each company's businesses, systems and operations. We selected the "best of both" — based not on anyone's personal preferences but on what's best for our customers and our businesses. We created a new organization structure — combining Wells Fargo's efficiency, speed to market and high tech channels with Norwest's outstanding sales and service culture, local decision making and a full range of financial products, not just banking. Our disciplined budget process focused on both revenue growth and greater efficiency.

We're laying out a carefully measured timeline for integrating systems and changing the Norwest name to Wells Fargo. We still have much to do.

We intend to keep upper-most in our minds the best interests of our customers, team members, communities and you, our owners.

OUR VISION We want to be the best financial services company in each of our markets — number one, second to none — and be recognized as one of America's great companies. We want to be known:

- by our **customers** for outstanding service, sound financial advice and a broad product line that helps them succeed financially;
- by our **team members** as a great place to work, as a company that cares and fosters effective two-way communication;
- by our **communities** as an active leader in economic development, services that promote economic self-sufficiency, education, the arts and spirited volunteerism; and
- by you, our **owners**, as a great investment that delivers returns among the highest in our industry and among the best of any company in any industry.

As Wells Fargo embarks on its 147th year, we're more confident than ever of your company's future prospects. We thank you, our owners, for your support. We especially thank our great team of people for being the very best at what they do.

It's fitting we end with the words of Henry Wells. He wrote them late at night in a letter at the end of a long work day in his first office in the new company. They're just as appropriate today as they were almost a century and a half ago. "This is a Great Country & a Greater People!"



Paul Hazen
Chairman



Richard M. Kovacevich
President and Chief Executive Officer

Our average retail banking customer has about

3.2

financial services products with us ...

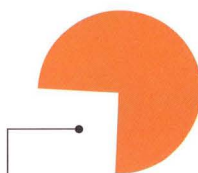


brand new opportunities

Chances are you don't know Goldie Mandella (above) or Joey Shoji or Alita Marshall or any of the other talented people you see on the next few pages. They're among the 102,000 Wells Fargo team members who work for you — and our customers — every day. They're the ones who produce our great results. They're why we're so confident your new company can take full advantage of our *Brand New Opportunities*. They are, to a person, caring, committed, professional, optimistic and energetic. They believe in building customer relationships not just transactions. They want to satisfy *all* our customers' financial needs and help them succeed financially.

... but the average American household has about

15



Only about 25% of our banking customers have a Norwest or Wells Fargo credit card.

SALES OPPORTUNITY

It's an ambitious goal. We have about 3.2 products per household today. We want to get to eight. The average American household has about 15. We can't make progress without talented salespeople such as **Goldie Mandella** (below), a personal banker in Billings, Mont. She ranks as one of our best in key measures of sales performance among thousands of her peers in our 21 banking states. Not bad for someone with only a year's experience serving customers face to face in a banking store after four years as a *Phone Bank*SM representative.

She credits her success to four behaviors. First, she uses our sales road mapping process and tailors it to her personal style. "Every time I visit with a customer, it's a sales and service opportunity." Second, she's prepared and self-confident.

"Customers respect the advice of people who know what they're talking about." Third, she's optimistic. "I keep a smile in my voice. If I feel good, chances are my customers will feel the same way." Fourth, success breeds success. "When I find a way to help a customer, that makes the customer feel good, it makes me feel good and that gives me even more energy to help the next customer."



We're the USA's

leading mortgage company...



...but our competitors fund

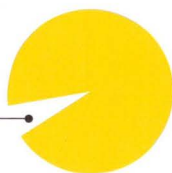
12

mortgages of every

13*



and only about 5% of our mortgage customers have a **home equity loan** with us.



We have 3.2 million banking households in the 16 former Norwest banking states. Only 7.4% of them have a mortgage with Norwest.

HOME IS WHERE THE OPPORTUNITY IS

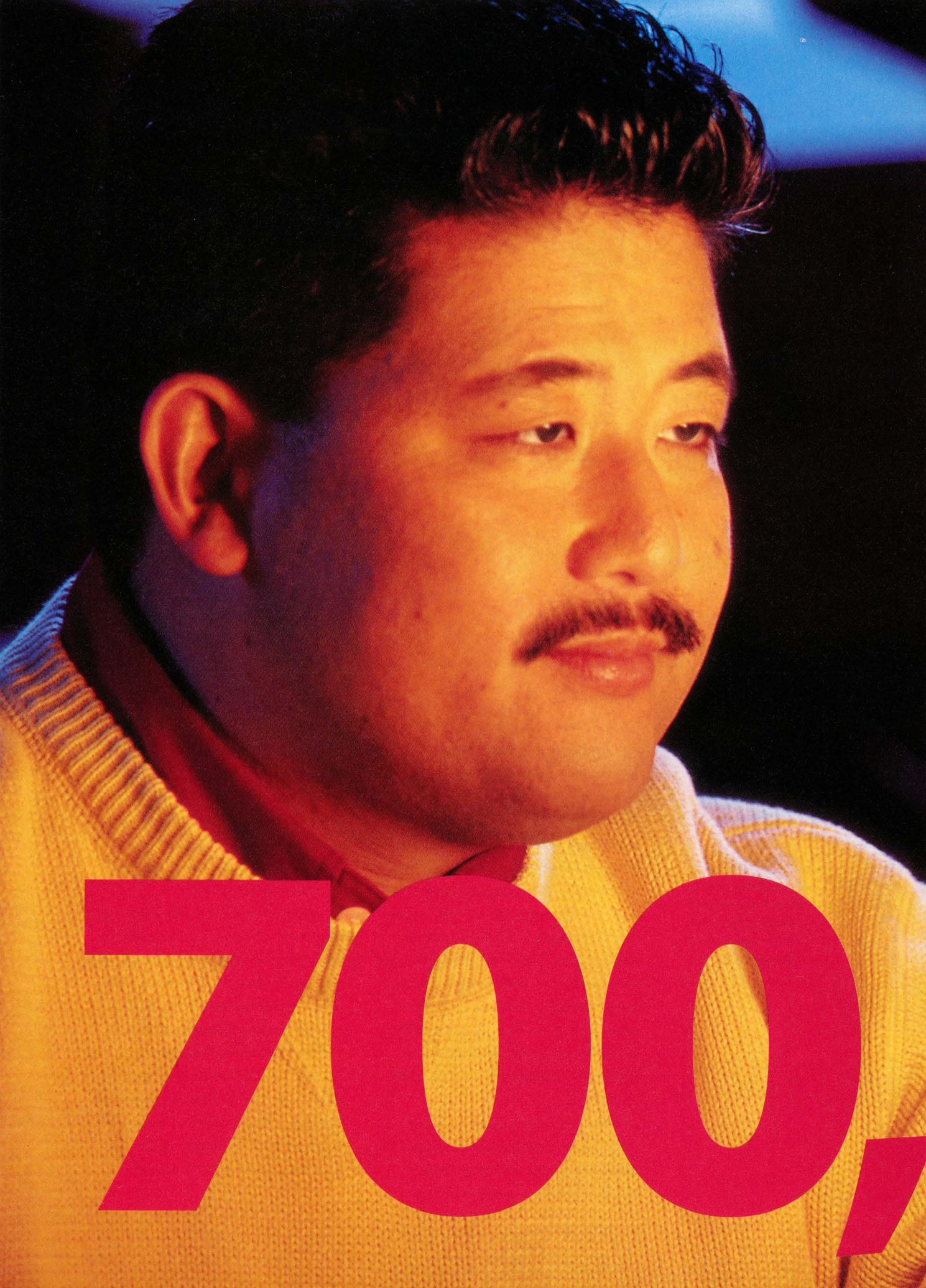
Phil Mahoney (left) and Doreen Woo Ho (right) don't have to look far to find opportunities in the mortgage and home equity business. It's right in their own front yards. Norwest Mortgage surpassed \$109 billion in originations in 1998, almost doubling its previous year's volume. That leads the industry — but that's still only a 7.7 percent national market share. There's lots of opportunity for growth. The Wells Fargo-Norwest merger brings us a new opportunity to sell mortgages to Wells Fargo banking customers in five fast growing states: California, Washington, Oregon, Utah and Idaho.

Woo Ho's Home Equity Lending business cuts across banking, mortgages, consumer finance and credit cards. It serves 500,000+ customers and has a

combined portfolio of \$14+ billion, second largest among all banks nationwide. "Our vision," she says, "is to become the nation's premier home equity lender and cross-sell home equity products to as many qualified customers as possible."

Mahoney helps Norwest Mortgage form joint ventures — a cost effective way to extend Mortgage's sales network through Realtors® and builders, who have more contacts than anyone else with potential mortgage customers. Last year, Norwest Mortgage more than doubled its loans originated through joint ventures. "In joint ventures with builders," says Mahoney, "we've financed up to 80 percent of the housing units of a development."

*Based on 9/30/98 Inside Mortgage Finance market share data.



700,



000

of our customers do their banking via the Wells Fargo internet site...



...but that's only about

8%

of all our banking customers.

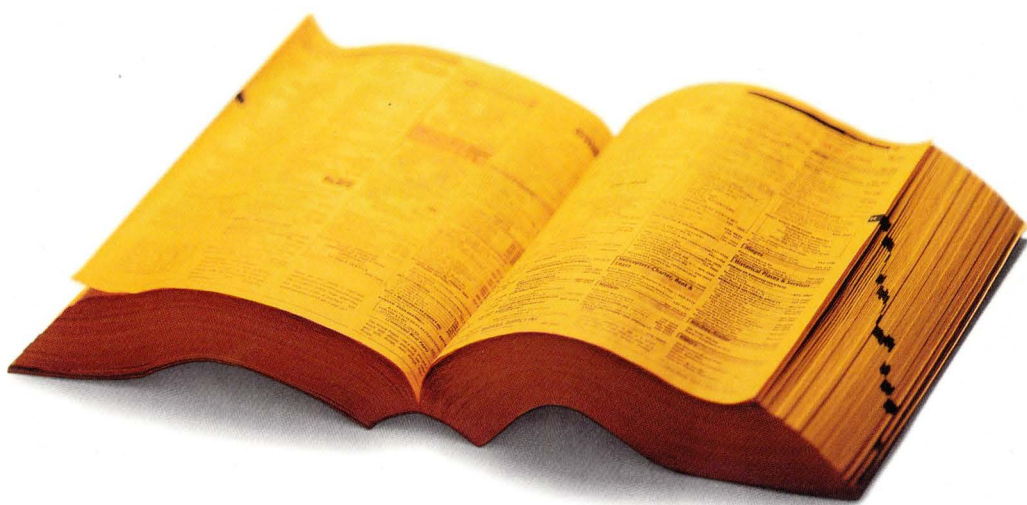
GROWTH OPPORTUNITY

Online banking is still an infant. Only three percent of American households use their home computers to check balances, transfer funds between accounts, pay bills or buy and sell stocks. But watch out. The baby's growing fast. In five years, it's projected one of every five households could be banking online. If that happens, the Internet will become a viable medium of commerce for banking — and join brick and mortar stores, telephone banking and ATMs as “trusted gateways” for financial services.

As the nation's oldest and largest Internet banker, Wells Fargo is ready to capitalize on the opportunity. In an average week, we're already handling more than 250,000 online transactions and enrolling as many as 10,000 new online customers. More importantly, online banking builds customer relationships. Our 700,000+ online customers tend to have more

products with us, have higher balances and are more likely to view Wells Fargo as their primary financial services provider. They also appreciate the convenience of targeted product offers that can save them time and money. Behind the scenes, our online banking team makes it all happen — including team members (top, clockwise) **James Mitchell** (programmer), **Sandra Gonzales** (customer service), **Paul Erlicht** (marketing) and **Joey Shoji** (business development).

“The technology never stops changing, evolving and improving,” says Erlicht. “Online banking is not just a relationship builder and a cross-selling tool, it's what customers come to expect from their financial services company. Our goal is to be the best online financial services provider in the nation with more customers and more services than any competitor.”



We're among the USA's leading bank lenders to

businesses...

...but, on average, we sell our business customers only about

of their financial services products.

1

3



WHEN OPPORTUNITY KNOCKS,

these three business bankers are quick to sell and serve their customers.

(From top, clockwise) Alita Marshall (Oakland, Calif.), Dean Taylor (Austin, Texas) and Laura Oberst (Minneapolis/St. Paul) are among our company's best in the number of products and services their customers buy from Wells Fargo and Norwest. They look at the big picture. Every time they interact with a customer it's a chance to strengthen the relationship, listen for new needs and identify sales and service opportunities — not only for the business but for personal banking needs of its officers, owners and employees.

As a relationship manager for the East Bay area, Marshall's market covers thousands of companies with \$5+ million in sales in fast-growing Alameda County and Contra Costa County. Her customers average about a half dozen products and services with Wells Fargo, double our company's average but still short of our goal of nine. Marshall calls her cross-sell strategy "selling deep." Example: five years ago she landed a middle market wholesaler from the Oakland area with a \$4 million working capital line of credit. Today, that customer has nine products with Wells Fargo, including a sweep account, PC Manager[®] equipment term debt, a real estate loan with interest rate protection and courier service. "The Norwest-Wells Fargo merger gives me and my customers more cross-sell opportunities," she says. "Mortgages, investment, insurance and leasing. The opportunities are endless."



In Dean Taylor's Austin, Texas market, only 15% of middle market businesses bank with Norwest.

brand A class of goods or services identified as being the product of a single firm or manufacturer; characteristic or distinctive kind. SIGN, SYMBOL, TRADEMARK. A sign or symbol predisposing customers to do business with a company by building their confidence and trust in, and familiarity with, its products and services. An implied promise of consistent quality. See 1998 Wells Fargo Annual Report, "Our brand stands for speed, reliability, service, safe keeping, innovation, trust and for 'coming through' for customers — wherever they live and wherever they want to go."

new Having existed or having been made but a short time; originated or occurred lately; not early or long in being; RECENT, FRESH, MODERN; seen or known but a short time although perhaps existing before; recently manifested, recognized or experienced; being other than the former or old; having freshly come into a relation; RENOVATED, RECREATED; recently acquired an improved status. See 1998 Wells Fargo Annual Report, "Our new company — the result of the recent merger of equals involving Norwest Corporation and Wells Fargo & Company — already is the premier banking franchise west of the Mississippi. Our vision is to become the premier financial services company in all of North America."

opportunities From Latin *opportunus*, *oportum*, coming to harbor. Fit, suitable, or convenient for particular occurrences. Occurring at a suitable time. TIMELY, ADVANTAGEOUS. Combination of circumstances, time and place suitable or favorable for particular actions. See 1998 Wells Fargo Annual Report, "Everywhere you look in the new Wells Fargo, there are new opportunities — to satisfy more of our customers' financial needs, to attract new customers, and to serve customers when, where and how they want to be served."



helping our communities

FUND OF OPPORTUNITY If you're a pessimist, you'll find plenty to point to in South Central Los Angeles today. There are still boarded up store fronts. There's still a serious shortage of local business ownership and financial credit. If you're an optimist, however, you can point to several exciting projects such as a new venture capital fund called FAME Renaissance, created by the First A.M.E. (African Methodist Episcopal) Church of Los Angeles, at 17,000 members, one of the city's largest churches.

FAME Renaissance, the economic development arm of the church, invests in emerging growth businesses — too small to hit the radar screen of larger venture capital funds — owned or operated by people of color that employ residents of the community. With a lead investment of \$2.5 million in the \$10

million fund, Wells Fargo support has helped fund more than 70 businesses the past four years, creating more than 250 jobs. "It's very rewarding to be a part of something that's making a difference in our community," says Wells Fargo Community Development Officer **Brenda Ross-Dulan** (above right), who serves on FAME Renaissance's board. "It's more than just satisfying government requirements for community reinvestment. It's just good business. It's business development. Our goal is to turn business owners, who receive FAME Renaissance investments, into customers of Wells Fargo."

"Brenda attends our workshops, she speaks for us," says **Mark Whitlock**, executive director of FAME Renaissance (above left). "She's helping us create opportunity."

create opportunity

Opportunity awaits us at every street corner in every neighborhood in every single one of our communities. The opportunity to help un-served or under-served segments of a community. The opportunity to invest in a small business that can create more jobs. The opportunity to help the economically disadvantaged become more self-sufficient. The opportunity to help a low or moderate income family become homeowners. The opportunity to unleash the volunteer spirit of our team members. The opportunity to satisfy all of the financial services needs of all our communities and help them succeed financially.

ARIZONA Norwest Banks launch Norwest Neighbors, contributing \$40,000 to non-profits that provide employment help and training to former welfare recipients. Wells Fargo: largest investor (\$600,000) in a micro-lending program serving migrant workers and American Indians who run small businesses in, or live in, rural Arizona. Wells Fargo: single largest contributor (\$1.1 million pledge) to expand Arizona State University's Chicano/Chicana Studies Program. **CALIFORNIA** Wells Fargo: sole funder (\$1 million) of a banking center — Operation Hope — to educate consumers and small businesses in South Central Los Angeles about banking and finance. Wells Fargo donated \$150,000 to the Accelerated School, the only charter school in South Central Los Angeles that helps Latino and African-American students improve their test scores. **IOWA** Norwest Banks, major sponsors of KidsFest, trade show benefiting Children and Families of Iowa, statewide non-profit human services agency.



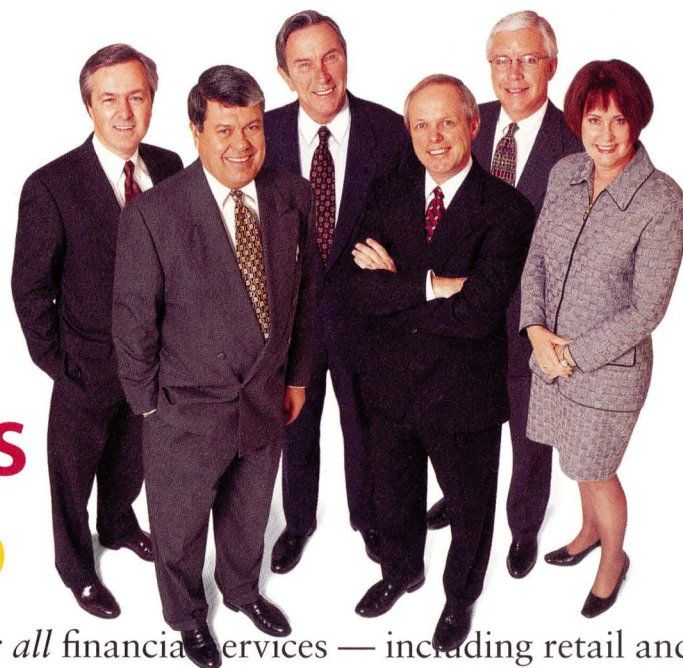
MINNESOTA Norwest Banks begin 30th year of support for adult education program in north Minneapolis, enabling 2,000+ participants to earn their high school general equivalency degrees and become job ready. To help raise capital to build affordable homes using volunteer labor, Norwest Bank Minnesota is trustee for \$2.5 million in securitized mortgages through Habitat for Humanity. Norwest Bank (Faribault) helps needy families who lack the money to pay for school expenses with loans of \$1,000, repaid with government tax credits. **NEBRASKA** Norwest Banks help revitalize a business district in North Omaha. **NEW MEXICO AND NEVADA** Norwest Banks help raise \$140,000 and \$50,000 respectively for the Juvenile Diabetes Foundation. **SOUTH DAKOTA** Norwest Banks contribute \$20,000 and hold fundraisers organized by team members to build bridges along the 110-mile Mickelson Trail in the Black Hills. **TEXAS** Norwest Banks donate \$153,500 to flood victims through the Salvation Army and the Red Cross. Wells Fargo commits to invest \$500,000 in a bank, owned and controlled by people of color, serving a low-moderate income area of Houston. **WASHINGTON** Wells Fargo: lead investor, single largest bank investment (\$250,000) in revolving loan fund for low-income entrepreneurs in Washington

RIVER OF HOPE *It's called Rio de Esperanza. River of Hope. It's a newly built group of 10 affordable housing units in a predominantly low income area of southwest Denver — largely Hispanic — where families live as they prepare to buy homes of their own — created by the SouthWest Neighborhood Housing Corp.*

*"SouthWest's work goes far beyond walls and windows," says **Jim Snow** (right), managing officer of Norwest's Bear Valley banking store in Denver. "They don't just give disadvantaged people housing, they make it possible for them to support themselves. They provide financial counseling, down payment assistance and help their clients overcome language barriers."*

*Norwest Bank Colorado is part of a group of companies and government agencies that help SouthWest develop and manage affordable housing for people below the area's median income. Norwest Bank underwrites and services loans originated by Norwest Mortgage's **Esther Talamantes** (middle). Esther's skill in Spanish is an essential part of the process — many of her customers do not speak English. Norwest's investment of sweat equity in SouthWest is far more important than its cash contribution. Snow has given hundreds of hours of his time to SouthWest the past five years, including three years as president of the organization. "Without Norwest and Jim Snow," says **Jan Marie Belle** (far left), executive director of SouthWest, "we wouldn't be able to develop what our neighborhoods need more than anything else, affordable housing."*

and Oregon. **WISCONSIN** Norwest Banks' capital investment in a community development program for low-income families surpasses \$58,000. **WYOMING** Using a Federal Home Loan Bank grant, Norwest supports a facility in Casper for the homeless, the disabled and people with AIDS. **USA** Since 1997, Norwest Mortgage's Homebuyers Club has helped 5,000+ prospective homeowners overcome previous credit problems and lack of down-payment funds to become pre-approved buyers. Norwest Mortgage: retraining 4,600 sales representatives to attract more low-moderate income customers; opening 56 stores in neighborhoods where incomes are 50-80% of the area median; number of mortgage loans to low-moderate income customers grew 66 percent in '98. Wells Fargo announces \$1 billion, 12-year loan program to fund African-American businesses across USA. Wells Fargo recognizes 285 team member-volunteers for contributing their personal time, donating \$250,000 to 111 non-profits. **LOS ANGELES, SAN FRANCISCO, OAKLAND AND HOUSTON** Wells Fargo: lead investor (\$5 million) in Microcredit Loan Fund, Inc. — makes \$250,000 contribution to the Fund — to create jobs and fund entrepreneurs in low-moderate income communities.



the businesses of Wells Fargo

We're much more than a bank. We cover *all* financial services — including retail and business banking, home mortgages, home equity, insurance, investments, consumer and commercial finance, venture capital, treasury management, trade services, commercial real estate, auto finance and capital markets.

Above: Group Executive Vice Presidents (from left) John Stumpf (Southwestern Banking), Jim Campbell (Minnesota Banking), Ken Murray (Diversified Financial Group), John Berg (Central Banking), John Nelson (Western Banking) and Terri Dial (California)

COMMUNITY BANKING

- **Stores:** 2,866 in 21 states
- **ATMs:** 6,248
- **Customers:** 9.1 million
- **USA's largest contiguous banking franchise**
- **Overview:** Our goal is to be recognized as the premier financial services provider in each of our communities. We believe in the power of local decision-making. The best decisions are local decisions, made by our people who live and work in their communities. They're closest to our customers. They know our communities better than anyone else.

Our market managers and their teams are responsible and accountable for: delivering our full array of products and services to their customers; our marketplace reputation; and community involvement. One key measure of our market leadership is share of deposits. We rank #1 in that measure in Colorado, Iowa, Montana, Nevada, and South Dakota; #2 in California, Minnesota, New Mexico, North Dakota, and Oregon; and #3 in Arizona and Nebraska. Those 12 states have almost 82% of our total deposits.



From Van Wert, Ohio to San Diego, Calif. our 21-state banking franchise covers more than half the continental USA and four time zones.

CENTRAL BANKING GROUP

- **North Dakota, South Dakota, Nebraska, Iowa, Wisconsin, Illinois, Indiana, Ohio**
- **Assets:** \$16 billion
- **Team Members:** 5,523
- **Stores:** 275
- **Overview:** Nebraska, Iowa, North Dakota, South Dakota are among leaders in new Wells Fargo in products per banking household, including South Dakota which is #1.

Top farm production states in all of Wells Fargo: Iowa #1 in USA in corn, soybeans and hogs; Nebraska #2 in USA for cattle; #3 corn, #4 hogs; Wisconsin USA's #2 dairy state; North Dakota USA's #1 wheat state.



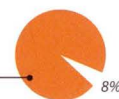
Nebraska Opportunity

Our average Nebraska banking household has 4.29 products with us — one of the highest in the company — but only 5.25% of our Nebraska banking households have investments through us.

MINNESOTA BANKING GROUP

- **Twin Cities, Greater Minnesota, Correspondent Banking, Peregrine Capital Management**
- **Assets:** \$12 billion
- **Team Members:** 5,690
- **Overview:** Wells Fargo's second- largest retail distribution system. USA's 3rd largest correspondent banker (\$3.5 billion in deposits, relationships with 2,600+ correspondent banks in 21 states);

state's leading originator of SBA loans; banking stores serve 91 communities; home of these national businesses: Peregrine, Correspondent Banking, Venture Capital, Insurance, Shareowner Services, Treasury Management, Specialized Financial Services Group (Norwest Business Credit, Norwest Equipment Finance, Capital Markets Group), Corporate Economics; Institutional Trust; Institutional Brokerage; Master Trust and Custody.



Minnesota Opportunity

Less than 8% of our Minnesota retail banking households have a home equity loan with us.

WESTERN BANKING GROUP

- **Colorado, Idaho, Montana, Nevada, Oregon, Utah, Washington, Wyoming**
- **Assets:** \$24 billion
- **Team Members:** 6,663
- **Stores:** 543

- **Overview:** 1.8 million banking households across company's largest geographic area, 785,000 square miles. 12 percent of company's assets. Colorado, Washington, Nevada among 3 of USA's 10 fastest-growing states.



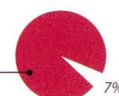
Colorado Opportunity

87% of our Colorado banking households have checking accounts with us but only 9% have credit cards with us.

SOUTHWESTERN BANKING GROUP

- **Arizona, New Mexico, Texas**
- **Assets:** \$29 billion
- **Team Members:** 8,876
- **Overview:** 1.62 million households; more in-store banks than any other financial services organization in the Southwest; all three states —

Arizona, New Mexico, Texas — among the nation's 10 fastest growing; total delivery points — 1,080; more channel options for financial services than any other organization in the Southwest; from Yuma, Arizona to Brownsville, Texas, USA's top NAFTA financial services company.



Arizona Opportunity

We're one of the largest mortgage lenders in Arizona but our competitors originate 93% of all new mortgage loans in the state.

CALIFORNIA, BUSINESS BANKING, PHONE BANKING, DISTRIBUTION STRATEGIES

- **California**
- **Assets:** \$51 billion
- **Team Members:** 6,743
- **Stores:** 1,032
- **Overview:** California, Wells Fargo's largest market (pop. 30 million), world's seventh largest economy, USA's largest small business market, housing market and largest farm economy. Greater Los Angeles metro: \$14+ billion in consumer and small business deposits. San Francisco Bay Area: \$17 billion in deposits. Southern California: \$8 billion in deposits.

Central California: \$4+ billion in deposits. Northern California: \$6+ billion in deposits.

Business Banking Group: National provider of capital and financial services that small businesses need to grow and prosper. USA's #1 small business lender, ranked by number of loans.

Phone Banking: Enables customers in 21 states to transfer funds between accounts, check balances and transactions, pay bills, and much more, 24 hours a day, seven days a week, touch-tone or with a live agent.



Business Banking Opportunity

We're the USA's largest small business lender among banks but our national market share is only 4%.

DIVERSIFIED FINANCIAL GROUP

- **Auto Finance, Insurance, Education Finance, U.S.-Mexico Border Strategy, SBA Lending, Cash-Based Business Strategy**
- **Assets:** \$15 billion
- **Team Members:** 2,704
- **Overview:** Auto Finance: \$10 billion in assets, coast to coast through 7,000+ car dealers; ranks #3 in leasing and #5 in all categories combined;

Education Finance: \$5 billion in receivables in all 50 states, ranks #1 in origination volume; Insurance: USA's largest bank-affiliated insurance agency, second largest crop insurer; USA's #2 SBA lender among banks. Largest financial services provider from Gulf of Mexico to Pacific Ocean along the U.S.-Mexican border: \$3.5 billion in assets.



SBA Lending Opportunity

We're the USA's 2nd largest SBA lender among banks but our national market share is only 1.8%.

MORTGAGE AND HOME EQUITY GROUP

NORWEST MORTGAGE

- '98 net income: \$217.4 million
- '98 originations: \$109.4 billion
- Consecutive years of earnings growth: 10
- Stores: 829; presence in all 50 states
- Customers: 2.3 million
- USA's largest mortgage originator
- USA's second largest servicer: \$245.2 billion
- USA's leading lender to first-time home buyers
- USA's leading lender to home builders
- 10-year compound annual growth rate: 50 percent

HOME EQUITY

- Portfolio: \$14+ billion
- Customers: 500,000+
- #2 nationally among all banks

CORPORATE TRUST

- Trustee for 7,000+ issues worth \$190 billion in debt.
- Largest master servicer of mortgage-backed securities: \$100+ billion.
- Leading trustee for privately-placed, asset-backed securities.



Norwest Mortgage has the most extensive retail franchise of any mortgage lender in USA.



Mortgage Opportunity

Wells Fargo has 5.5 million banking households in Calif., Ore., Wash., Id., and Utah. Only 3% of them have a mortgage with Norwest.

INVESTMENTS GROUP

- Assets under management: \$121 billion
- Team Members: 6,000
- Institutional Trust: Employee benefit plan and institutional trust assets under administration: \$260+ billion. Retirement and custody services: investment management, trustee services, recordkeeping, employee education, master trust, securities lending, performance measurement and safekeeping. 650,000 plan participants. One of 20 largest 401(k) providers. Ranked #1 in USA for client satisfaction.
- Institutional Brokerage: 70+ registered representatives, 14,000+ customers. '98: expanded broker/dealer powers to include underwriting and sale of all fixed income products. Expanded ability to offer same-day sweep products, mortgage-backed securities and corporate securities. Leading underwriter of municipal securities in the Midwest.
- Private Client Services: Integrated financial solutions for high net worth and affluent individuals — personal trust, investment management, full service and discount brokerage services,

private banking, 660 financial consultants in 21 states. Largest personal trust company in Western U.S. with \$82 billion in trust and custody assets.

- Online financial services: Enables customers to pay bills to anyone in the USA, view account information, transfer funds between accounts. WellsTrade — online trading for self-directed investors.
- Mutual Funds: Merged Stagecoach Funds and Norwest Advantage Funds will become 6th largest bank-advised mutual fund family. 85 funds, \$52+ billion in assets. Stagecoach Funds: 42 mutual funds, \$28+ billion in assets. Norwest Advantage Funds: 43 mutual funds, \$24 billion in assets.
- Wells Capital Management: Investment management for large institutional clients including corporations, commingled funds and pension plans. With Norwest Investment Management, Inc., 100+ investment professionals in 10 states direct the investment management of \$65+ billion in portfolio balances.



Investment Opportunity

Only 4.5% of our retail banking customers invest through Wells Fargo.

NORWEST EQUITY PARTNERS/NORWEST VENTURE PARTNERS

Wells Fargo's private equity investment businesses:

- Norwest Equity Partners: Invests in mature, growing companies including management buyouts, recapitalizations and industry consolidations. Norwest Equity Partners VI capitalized at \$300 million. Minneapolis, Los Angeles.
- Norwest Venture Partners: Provides equity capital for early stage emerging companies in information technology industries. In 1998 its most recent fund, Norwest Venture Partners VII, was

capitalized with \$250 million of commitments. Palo Alto, Calif.; Wellesley, Mass.

- Invested in 450+ companies since founding in '61
- Invested \$228 million in '98
- Manages \$1.5+ billion in capital and commitments



We want to “*Out Local the Nationals and Out National the Locals.*” We must offer better products and a broader product line than our local competitors so we can be the financial services provider of choice. We also must out-perform our national competitors by staying close to our customers, understanding their needs, and providing professional, personalized, timely service.

Managing Partner George Still (Norwest Venture Partners); Group Executive Vice President Mark Oman (Mortgage and Home Equity Group); Managing Partner John Lindahl (Norwest Equity Partners), Executive Vice President M. Lucile Reid (Consumer Banking Group); Group Executive Vice President Clyde Ostler (Investments Group); Chairman and CEO David Wood (Norwest Financial); and Group Executive Vice President Dave Hoyt (Wholesale Banking)

NORWEST FINANCIAL

- **'98 operating income:** \$210 million
- **Stores:** 1,350
- **Receivables:** \$9.4 billion
- **Team members:** 11,777
- **Overview:** Developing new information management system that promotes cross-sell and ready access to customer account information; enables store managers to review dealer contracts online. New “cash on demand” ATM products for revolving loan customers, grew loan balances in '98 by almost \$40 million.
- **Norwest Financial:** Consumer finance, 813 stores in 47 states.

- **Trans Canada Credit:** Consumer finance, 147 stores, all 10 provinces.
- **National Retail Credit Services (formerly Eaton's Credit):** One of Canada's largest credit card operations, providing “private label” service to Eaton's Department Store customers and other retailers.
- **Island Finance:** Consumer finance, 149 stores, Caribbean, Latin America.
- **Community Credit, Fidelity Financial Services:** Automobile finance, 228 stores, 33 states.



Norwest Financial's retail network stretches from Saipan through Canada, across the USA, the Caribbean into Latin America.



Consumer Finance Opportunity

40% of Norwest Financial's eligible customers have signed up for the new Cash on Demand (C.O.D.) ATM revolving loan product. Sales to the other 60% could generate \$140+ million in new loans.

WHOLESALE BANKING

- **Assets:** \$41 billion
- **Team Members:** 4,063
- **Capital Markets Group:** Real estate merchant banking, structured finance, commercial fixed rate mortgage originations, and other capital markets debt products.
- **Commercial Banking:** Serves middle market customers from 40 locations across 21-state Wells Fargo/Norwest banking franchise.
- **Corporate Banking:** Serving large corporate customers with annual sales of \$250+ million.
- **The Foothill Group:** Asset-based lending throughout the USA and asset management for institutional investors.
- **Norwest Equipment Finance:** A leading provider of equipment loans/leases.

- **Norwest Business Credit:** Asset-based lending, factoring, debtor in possession financing.
- **Real Estate Lending Group:** Serves large-scale real estate customers.
- **Shareowner Services:** USA's 6th largest stock transfer agent; 420 corporate customers in 36 states. Ranked #1 in customer satisfaction 5 of last 6 years.
- **Treasury Management:** USA's 2nd largest originator of automated clearinghouse transactions.
- **International Banking:** The Wells Fargo HSBC Trade Bank (USA's only nationally-chartered bank exclusively for international trade); Foreign Exchange (helps middle market companies manage currency trading risk).



Wholesale Banking Opportunity

In our recent surveys, wholesale customers tell us they need an average of seven more financial services products. So far, we've identified 14,000 new product sales opportunities from 20% of our customers.

BOARD OF DIRECTORS

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Vice Chairman, Chief Operating Officer
Wells Fargo & Company,
San Francisco, Calif.

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Chairman, President, CEO
Deluxe Corporation, Shoreview, Minn.
(Paper and electronic payment services)

Michael R. Bowlin 4,5

Chairman, President, CEO, COO
Atlantic Richfield Company,
Los Angeles, Calif.
(Integrated oil company)

Edward M. Carson 2,3

Retired Chairman
First Interstate Bancorp.,
Los Angeles, Calif.

David A. Christensen 1,2,3

President, CEO
Raven Industries, Inc.,
Sioux Falls, S.D.
(Diversified manufacturer)

William S. Davila 1,4

Retired President Emeritus
The Vons Companies, Inc.,
Los Angeles, Calif.
(Food retailing)

Susan E. Engel 3,4

Chair, President, CEO
Department 56 Inc.,
Eden Prairie, Minn.
(Specialty retailer)

Paul Hazen

Chairman
Wells Fargo & Company,
San Francisco, Calif.

William A. Hodder 2,5

Retired Chairman, CEO
Donaldson Company, Inc.,
Minneapolis, Minn.
(Filtration device manufacturer)

Rodney L. Jacobs

Vice Chairman, Chief Financial Officer
Wells Fargo & Company,
San Francisco, Calif.

Reatha Clark King 1,3

President, Executive Director
General Mills Foundation,
Minneapolis, Minn.
(Charitable foundation)

Richard M. Kovacevich

President, CEO
Wells Fargo & Company,
San Francisco, Calif.

Richard D. McCormick 4,5

Chairman of the Board
U S WEST, Inc., Englewood, Colo.
(Communications)

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Dean
College of Business Administration,
University of Nebraska-Lincoln, Neb.
(Higher education)

Benjamin F. Montoya 1,4

President, CEO
Public Service Company of
New Mexico, Albuquerque, N.M.
(Public utility)

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Retired Chairman, President, CEO
Pacific Telesis Group,
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(Telecommunications)

Donald B. Rice 2,5

President, CEO
UroGenesis, Inc.,
Santa Monica, Calif.
(Biotechnology)

Ian M. Rolland 4,5

Chairman of the Board
Lincoln National Corporation,
Fort Wayne, Ind.
(Insurance)

Judith M. Runstad 1,4

Partner
Foster Pepper & Schefelman PLLC,
Seattle, Wash.
(Law firm)

Susan G. Swenson 1,3

President, CEO
Cellular One,
South San Francisco, Calif.
(Wireless communications)

Daniel M. Tellep 3,4,5

Retired Chairman
Lockheed Martin Corporation,
Bethesda, Md.
(Aerospace and defense manufacturer)

Chang-Lin Tien 1,4

Professor of Engineering, Former Chancellor
U. of California, Berkeley, Calif.
(Higher education)

Michael W. Wright 2,3,5

Chairman, President, CEO
SUPERVALU INC.,
Minneapolis, Minn.
(Food distribution, retailing)

John A. Young 2,3,5

Retired President, CEO
Hewlett-Packard Company,
Palo Alto, Calif.
(Computers, peripheral equipment)

Committees

Audit and Examination...1
Board Affairs...2
Credit...3
Finance...4
Human Resources...5

CORPORATE EXECUTIVES

OFFICE OF THE CHAIRMAN

Paul Hazen,
Chairman*

Richard M. Kovacevich,
President, CEO*

Leslie S. Biller,
Vice Chairman,
Chief Operating Officer*

Rodney L. Jacobs,
Vice Chairman,
Chief Financial Officer*

John A. Berg, Group EVP,*
Central Banking Group

Patricia R. Callahan,*
Human Resources

James R. Campbell, Group EVP,*
Minnesota Banking

Terri A. Dial, Group EVP,*
California, Business Banking,
Telephone Banking,
Distribution Strategies

C. Webb Edwards,
Technology and Operations Group

Thomas E. Emerson,
Chief Auditor

George W. Fehlhaber,
Treasurer

John E. Ganoie,
Corporate Development

Cynthia J. Gray,
Marketing

Lawrence P. Haeg,
Corporate Communications

Laurel A. Holschuh,
Corporate Secretary

Seawadon L. Houston,
Doing it Right for the Customer

David A. Hoyt, Group EVP,*
Wholesale Banking

Ross J. Kari,
Deputy Chief Financial Officer

Ely L. Licht,*
Chief Credit Officer

Kenneth R. Murray, Group EVP,*
Diversified Financial Group

John C. Nelson, Group EVP,*
Western Banking Group

Mark C. Oman, Group EVP,*
Mortgage and Home Equity Group

Clyde W. Ostler, Group EVP,*
Investments Group

Les L. Quock,*
Controller

M. Lucile Reid, EVP,
Consumer Banking Group

Eric D. Shand,
Chief Loan Examiner

Robert S. Strickland,
Investor Relations

Stanley S. Stroup,*
General Counsel,
Government Relations

John G. Stumpf, Group EVP,*
Southwestern Banking Group

J. Daniel Vandermark,
Corporate Tax

*Executive officers

SENIOR BUSINESS OFFICERS

CALIFORNIA, BUSINESS BANKING, TELEPHONE BANKING, DISTRIBUTION STRATEGIES

GROUP HEAD

Terri A. Dial
Robert Chlebowski, Distribution Strategies Group
Michael R. James, Business Banking Group
Colleen M. Anderson, Business Banking
Marc L. Bernstein, Business Direct
Rebecca Macieira-Kaufmann, Marketing
Debra B. Rossi, Electronic Payment Services
John W. Baker, Payroll Business
Michelle Banaugh, Merchant E-Commerce
Charles Drucker, Merchant Card
Leonard A. Gucciardi, Phone Bank

REGIONAL PRESIDENTS

Colleen M. Anderson, Southern California
Anat Bird, Northern California
Lynn A. Pike, Greater Los Angeles
Carrie L. Tolstedt, Central California
Byron A. Scordelis, San Francisco/Oakland/
San Jose Bay Area

REGIONAL MANAGERS

Scott R. Andrews, San Diego East
Daniel K. Bailey, North Valley
Shelley L. Benson, Downtown/West Los Angeles
Michael F. Billeci, San Jose
Darrell R. Brown, San Fernando Valley
Pamela M. Conboy, San Gabriel Valley
Barbara A. Crist, South Alameda
Robert J. Crouch, Capital City
Caren J. Courtney, Golden Gate
Linda V. Deboe, North Peninsula
Diane P. DeRousseau, San Diego West
Leo Gonzalez, South Los Angeles/South Bay
Steve R. Hafen, Pacific Coast
Andrew P. Mastorakis, Contra Costa
Gregory L. Morgan, Marin
Willie A. Natt, East Bay
Debra J. Paterson, Inland Valley
John A. Sotoodeh, Silicon Valley
Lisa J. Stevens, San Francisco
Brad L. Tolstedt, Vineyard
Kim P. Young, Orange County Coastal

WESTERN BANKING GROUP

GROUP HEAD

John C. Nelson

REGIONAL PRESIDENTS

David E. Bailey, Metro Denver
Robert W. Byrne, Washington
George J. Passadore, Oregon/Idaho
Linda J. Petty, Greater Colorado/Utah
Laura A. Schulte, Nevada
Robert D. Worth, Montana/Wyoming

REGIONAL MANAGERS

Kirk V. Clausen, Northern Nevada
Las Vegas
Bryan Walters, Southern Nevada

SOUTHWESTERN BANKING GROUP

GROUP HEAD

John G. Stumpf

REGIONAL PRESIDENTS

Jon R. Campbell, Arizona
Timothy J. Coughlon, Texas Major Markets
William R. Goertz, Central Texas
Larry D. Willard, New Mexico/ West Texas
Paul W. (Chip) Carlisle, Houston

REGIONAL MANAGERS

Nathan E. Christian, Border Banking
John T. Gavin, Fort Worth/Dallas
Thomas W. Honig, Austin
Robert A. Jung II, Albuquerque
Craig A. Ockers, Southern Arizona
Gerrit van Huisstede, Metro Phoenix
Patrick G. Yalung, Northern Arizona
Dean A. Rennell, Phoenix Business Banking

CENTRAL BANKING GROUP

GROUP HEAD

John A. Berg

REGIONAL PRESIDENTS

Terry D. Baloun, South Dakota, SW Minnesota
Kirk E. Dean, North Dakota, NW Minnesota
William J. Dewhurst, Indiana/Ohio
H. Lynn Horak, Iowa
J. Lanier Little, Wisconsin/Illinois
Judith A. Owen, Nebraska

REGIONAL MANAGERS

Alan V. Johnson, Indiana/Ohio
J. Scott Johnson, Iowa

MINNESOTA BANKING GROUP

GROUP HEAD

James R. Campbell

William L. Meyer, Correspondent Banking
Robert B. Mersky, Peregrine Capital Management
Erich A. Schultz, Correspondent Banking

REGIONAL PRESIDENT

Patrick J. Donovan, Twin Cities

REGIONAL MANAGERS

Philip Rolle, Northern Minnesota
Norbert D. Harrington, Southern Minnesota
Marilyn J. Dahl, Twin Cities Retail Banking
Gerald B. Stenson, Twin Cities Business Banking

DIVERSIFIED FINANCIAL GROUP

GROUP HEAD

Kenneth R. Murray

Jerry E. Gray, SBA Lending

Timothy J. King, President, Norwest Insurance
Michael E. Connealy, President, Rural Community Insurance Agency, Inc.
Steven C. Veno, Norwest Insurance

Richard T. Schliesmann, Auto Finance Group
Dianne D. Breuer, Auto Lending
Brent C. Fossey, Dealer Finance

Keith A. Wilton, Auto Leasing

Jon A. Veenis, Education Finance

MORTGAGE AND HOME EQUITY GROUP

GROUP HEAD

Mark C. Oman, Chairman and CEO,
Norwest Mortgage, Inc.

NORWEST MORTGAGE, INC.

Peter J. Wissinger, Group Managing Director,
Sales and Operations

Cara K. Heiden, National Consumer Lending Sales

Joseph W. Rogers, National Consumer Lending Sales

Chuck Ohmer, National Consumer Lending Sales

Michael Heid, Loan Servicing

Patrick M. Sheehy, Institutional Lending

Daniel Russell, Affordable Housing

Robert K. Chapman, Chief Financial Officer

Geoffrey H. Dreyer, Managing Director,
Risk Management

HOME EQUITY LENDING

Doreen Woo Ho, Group Managing Director
Judith A. Berry, Directors Acceptance Corporation
Kathleen Vaughan, Norwest Direct
J. Kirk Simpson, Norwest Home Improvement
Marshall R. Miller, Strategic Risk Management

CORPORATE TRUST SERVICE

Kevin A. Rhein, Business Manager

INVESTMENTS GROUP

GROUP HEAD

Clyde W. Ostler

Peter E. Glanville, Managing Principal,
Lowry Hill Investment Advisors, Inc.
P. Jay Kiedrowski, Trust Operations
Dennis Mooradian, Private Client Services
Michael J. Conway, Southwest
Charles W. Dags III, Northern California
Joseph W. DeFur, Northwest
John R. Farrish, Minnesota
Dennis G. Hoffman, Great Plains
David M. Jones, South
Robert L. Roszkos, Southern California
James J. Urbanek, Midwest
Michael J. Niedermeyer, Institutional Businesses
Robert W. Bissell, President Wells Capital Management
Michael J. Hogan, Mutual Funds
James Paulsen, Wells Capital Management
Sharon Osberg, Online Financial Services Group

WHOLESALE BANKING

GROUP HEAD

David A. Hoyt

Paul M. Watson, Commercial and Corporate Banking Groups

Iris S. Chan, Northern California,
Pacific Northwest

William W. Henderson, Arizona, Nevada,
Utah, Central California

Robert A. Chereck, Texas

Albert (Rick) F. Ehrke, Southern California

Richard P. Ferris, Corporate Banking,
Treasury Management Sales,
Shareowner Services

Michael J. Loughlin, Senior Credit Officer,
Commercial, Corporate

Timothy J. Sloan, Capital Markets

J. Michael Johnson, Structured Finance,
Distribution

A. Larry Chapman, Real Estate Group
Robin W. Michel, Northern California,
Northwest

James H. Muir, Midwest East Coast

Stephen P. Prinz, Texas, Central US

Timothy W. Washburn, Southern California

Thomas J. Davis, Senior Credit Officer,
Real Estate

David J. Zuercher, International Group,
Wells Fargo HSB Trade Bank

Peter P. Connolly, Foreign Exchange

Richard C. Westergaard, Specialized Financial Services Group

Martin J. McKinley, President, Norwest Business Credit, Inc.

James R. Renner, President, Wells Fargo Equipment Finance, Inc.

John F. Nickoll, Chairman and Chief Executive Officer, The Foothill Group, Inc.

Peter E. Schwab, President, Foothill Capital Corporation

NORWEST EQUITY PARTNERS

John E. Lindahl, Managing Partner

NORWEST VENTURE PARTNERS

George J. Still, Jr., Managing Partner

CONSUMER BANKING GROUP

M. Lucile Reid

Leslie L. Altick, Checking, Fee-Based Services
James K. Ketcham, Deposit Risk Operations
P. Andrew Will, Savings, Investment Products, Premier Banking

NORWEST FINANCIAL

David C. Wood, Chairman and CEO
Rex J. Ellinson, SVP, Division Manager
Tammeria K. Hawks, SVP, Division Manager
Greg M. Janasko, SVP, Division Manager
Dennis N. Johnston, EVP, President, Information Services
Ronald L. Lottes, EVP
Curtis M. Martin, SVP, Division Manager
Patricia J. McFarland, SVP, General Counsel, Secretary
Thomas P. Shippee, EVP
John W. Sondereker, EVP
Eric T. Torkelson, SVP, Controller
Dennis E. Young, EVP, Chief Financial Officer

TECHNOLOGY AND OPERATIONS GROUP

GROUP HEAD

C. Webb Edwards

TECHNOLOGY SERVICES

Barry X. Lynn, President, Chief Technology Officer

Susan A. Blew, Information Technology

Kenneth R. Chrisman, Retail and Consumer Banking

Kathryn J. DeWit, New Technology Business/Corporate LAN

Marcia J. Donner, Customer Service Group

Bruce A. Hartsough, Systems Architecture

Sherry D. Nash, Corporate Data Networks

Mike D. Noble, Shared Application Development

Wayne A. Mekjian, Chief Technology Officer, Operations

William J. Wood, Chief Technology Officer, Wholesale

Anthony M. Padinha, Data Centers

Walter L. Jones, Data Centers

OPERATIONS SERVICES

Diana Starcher, Payment Services

Terry L. Allen, Wholesale Operations

MARKETING

Cynthia J. Gray, EVP

Karen M. Alnes, Privacy Policies

Jay M. Bozicevich, Sales Systems

Beth Anne Dalby, Sales Programs

Melinda M. Denton, Market Research

Betsy Dobel, Marketing Integration

Naomi J. Kaufman, Marketing Decision Support System

Lori L. McCarney, Brand Management

David S. Merlo, Direct Marketing

Michael W. Morgan, Customer Analysis

Jason C. Yates, Sales Tracking System

BRAND NEW OPPORTUNITIES — STORES STATE BY STATE*

ALABAMA

Norwest Financial 33
Fidelity Financial 6
Norwest Mortgage 6
ATI Title Company 4

ALASKA

Norwest Financial 6
Norwest Mortgage 3

ARIZONA

Wells Fargo Community Banking 232
Norwest Community Banking 89
ATI Title Company 25
Investment Services 23
Norwest Financial 17
Norwest Mortgage 15
Norwest Investment
Management and Trust 6
Community Credit 5
Fidelity Financial 4
Norwest Insurance 3
Norwest Card Services 2
Norwest Ag Credit 2
Norwest World Banking 1
Norwest Equipment Finance 1
Norwest Business Credit 1
Norwest Structured Finance 1
Norwest Auto Finance 1
Norwest Master Trust and Custody 1
Norwest Corporate Trust 1
Wells Fargo Foreign Exchange 1
Wells Fargo Business Banking Center 1
Wells Fargo Commercial Banking 1
Wells Fargo Commercial Mortgage 1
Corporate Banking 1

ARKANSAS

Norwest Mortgage 10

CALIFORNIA

Wells Fargo Community Banking 1,032
Norwest Mortgage 103
Norwest Financial 79
Fidelity Financial 28
Wells Fargo Business
Banking Center 25
Wells Fargo Commercial Banking 19
Wells Fargo Commercial Real Estate 6
Wells Fargo Commercial Mortgage 5
Community Credit 3
Wells Fargo Trade Bank 3
ATI Title Company 3
Norwest Business Credit 2
Foothill 2
Wells Fargo Foreign Exchange 2
Corporate Banking 2
Structured Finance 2
Rural Community Insurance Services 1
Norwest Venture Capital 1
Rate Risk Management 1

COLORADO

Norwest Community Banking 97
Norwest Mortgage 51
Investment Services 41
Wells Fargo Community Banking 17
Norwest Financial 14
Norwest Investment
Management and Trust 7
Community Credit 5
Fidelity Financial 4
Norwest Insurance 3
Norwest Card Services 2
Norwest Equipment Finance 2
Norwest Ag Credit 1
Norwest World Banking 1
Norwest Business Credit 1
Norwest Structured Finance 1
Norwest Auto Finance 1
Norwest Corporate Trust 1
Wells Fargo Trade Bank 1
Wells Fargo Foreign Exchange 1
Wells Fargo Business Banking Center 1
Wells Fargo Commercial Banking 1
Wells Fargo Commercial Mortgage 1
Wells Fargo Corporate Banking 1
Business Banking Center 1
Wells Fargo Commercial Real Estate 1

CONNECTICUT

Norwest Mortgage 3
Norwest Financial 3
Norwest Equipment Finance 1

DELAWARE

Norwest Mortgage 4
Norwest Financial 2
Fidelity Financial 1

FLORIDA

Norwest Financial 42
Norwest Mortgage 33
Fidelity Financial 4
ATI Title Company 2

GEORGIA

Norwest Financial 21
Norwest Mortgage 18
Fidelity Financial 12

Investment Services 3
Norwest Equipment Finance 2
Foothill 1
Community Credit 1
Wells Fargo Commercial Mortgage 1
Wells Fargo Commercial Real Estate 1

GUAM

Norwest Financial 3

HAWAII

Norwest Financial 12
Norwest Mortgage 9
Fidelity Financial 1

IDAHO

Wells Fargo Community Banking 17
Norwest Financial 13
Norwest Mortgage 9
Norwest Ag Credit 1
Fidelity Financial 1
Wells Fargo Commercial Banking 1

ILLINOIS

Norwest Mortgage 27
Norwest Financial 26
Norwest Community Banking 10
Community Credit 10
Fidelity Financial 7
Norwest Investment
Management and Trust 3
ATI Title Company 3
Norwest Equipment Finance 2
Norwest Business Credit 1
Foothill 1
Norwest Master Trust and Custody 1
Wells Fargo Commercial Mortgage 1
Corporate Banking 1
Wells Fargo Commercial Real Estate 1

INDIANA

Norwest Community Banking 44
Norwest Mortgage 26
Norwest Financial 16
Investment Services 14
Norwest Investment
Management and Trust 6
Fidelity Financial 6
Community Credit 3
Norwest Business Credit 2
ATI Title Company 2
Norwest Card Services 1
Norwest Insurance 1
Norwest World Banking 1
Norwest Corporate Trust 1

IOWA

Norwest Community Banking 48
Investment Services 30
Norwest Mortgage 23
Norwest Financial 15
Norwest Investment
Management and Trust 11
Norwest Insurance 7
ATI Title Company 4
Norwest Card Services 2
Public Finance 2
Norwest Ag Credit 1
Norwest World Banking 1
Norwest Equipment Finance 1
Norwest Business Credit 1
Norwest Auto Finance 1
Community Credit 1
Norwest Corporate Trust 1

KANSAS

Norwest Financial 7
Fidelity Financial 6
ATI Title Company 3
Norwest Mortgage 2

KENTUCKY

Norwest Financial 18
Norwest Mortgage 6
Fidelity Financial 4
Community Credit 1

LOUISIANA

Norwest Financial 30
Norwest Mortgage 11
Fidelity Financial 4

MAINE

Norwest Financial 2

MARYLAND

Norwest Financial 20
Norwest Mortgage 12
ATI Title Company 5
Norwest Corporate Trust 1

MASSACHUSETTS

Norwest Mortgage 13
Norwest Financial 11
Norwest Business Credit 1
Foothill 1
Norwest Venture Capital 1

MICHIGAN

Norwest Mortgage 18
Norwest Financial 5
Norwest Equipment Finance 1
Norwest Business Credit 1
Fidelity Financial 1

MINNESOTA

Norwest Community Banking 168
Investment Services 122
Norwest Mortgage 62
Community Credit 21
ATI Title Company 17
Norwest Insurance 17
Norwest Financial 12
Norwest Investment
Management and Trust 9
Norwest Card Services 2
Norwest Ag Credit 2
Norwest Employee Benefit Services 2
Rural Community Insurance Services 1
Norwest World Banking 1
Norwest Equipment Finance 1
Norwest Business Credit 1
Norwest Structured Finance 1
Norwest Auto Finance 1
Norwest Shareowner Services 1
Norwest Master Trust and Custody 1
Norwest Corporate Trust 1
Norwest Venture Capital 1
Wells Fargo Foreign Exchange 1
Wells Fargo Business Banking Center 1
Wells Fargo Commercial Mortgage 1
Corporate Banking 1
Communication Finance 1
Structured Finance 1
Public Finance 1
Rate Risk Management 1

MISSISSIPPI

Norwest Financial 17
Fidelity Financial 6
Norwest Mortgage 1

MISSOURI

Norwest Financial 26
Norwest Mortgage 12
ATI Title Company 6
Fidelity Financial 4
Community Credit 4
Norwest Equipment Finance 3
Norwest Business Credit 1

MONTANA

Norwest Community Banking 41
Investment Services 15
Norwest Mortgage 9
Norwest Financial 7
Norwest Investment
Management and Trust 4
Norwest Card Services 1
Norwest Insurance 1
Norwest Equipment Finance 1

NEBRASKA

Norwest Community Banking 31
Investment Services 12
ATI Title Company 10
Norwest Financial 10
Norwest Mortgage 8
Norwest Investment
Management and Trust 6
Norwest Card Services 2
Norwest Ag Credit 2
Norwest Insurance 1
Norwest World Banking 1
Norwest Corporate Trust 1
Fidelity Financial 1
Community Credit 1

NEVADA

Wells Fargo Community Banking 84
Norwest Community Banking 54
Investment Services 15
Norwest Mortgage 14
Norwest Financial 12
ATI Title Company 3
Norwest Card Services 2
Fidelity Financial 2
Community Credit 2
Wells Fargo Business Banking Center 2
Wells Fargo Commercial Banking 2
Norwest Insurance 1
Norwest Master Trust and Custody 1

NEW HAMPSHIRE

Norwest Mortgage 5

NEW JERSEY

Norwest Mortgage 12
Norwest Financial 8
Fidelity Financial 2
Norwest Equipment Finance 1

NEW MEXICO

Norwest Community Banking 90
Norwest Financial 20
Investment Services 20
Norwest Mortgage 15
Wells Fargo Community Banking 5
Norwest Investment
Management and Trust 3
Norwest Card Services 1
Norwest Insurance 1
Norwest Equipment Finance 1
Norwest Business Credit 1
Norwest Corporate Trust 1
Fidelity Financial 1
Community Credit 1

NEW YORK

Norwest Mortgage 19
Norwest Financial 12
ATI Title Company 7
Norwest World Banking 1
Norwest Business Credit 1
Foothill 1
Island Finance 1

NORTH CAROLINA

Norwest Financial 33
Norwest Mortgage 24
Rural Community Insurance Services 1
Foothill 1

NORTH DAKOTA

Norwest Community Banking 26
Investment Services 12
Norwest Insurance 10
Norwest Mortgage 8
Norwest Financial 6
Norwest Investment
Management and Trust 3
Norwest Equipment Finance 1

OHIO

Norwest Mortgage 28
Norwest Financial 28
Fidelity Financial 12
Community Credit 6
ATI Title Company 3
Norwest Community Banking 1
Investment Services 1

OKLAHOMA

Norwest Financial 14
Norwest Mortgage 7
Fidelity Financial 2
Foothill 1
Community Credit 1

OREGON

Wells Fargo Community Banking 119
Norwest Mortgage 25
Wells Fargo Commercial Mortgage 15
Norwest Financial 13
Wells Fargo Business Banking Center 2
Wells Fargo Commercial Banking 2
Norwest Equipment Finance 1
Wells Fargo Trade Bank 1
Fidelity Financial 1
Community Credit 1
Corporate Banking 1
Commercial Real Estate 1

PENNSYLVANIA

Norwest Financial 26
Norwest Mortgage 17
Fidelity Financial 2
Community Credit 2
ATI Title Company 1

RHODE ISLAND

Norwest Financial 4
Norwest Mortgage 2

SAIPAN, MARINA ISLANDS

Norwest Financial 1

SOUTH CAROLINA

Norwest Financial 25
Norwest Mortgage 7
Fidelity Financial 2

SOUTH DAKOTA

Norwest Community Banking 52
Investment Services 11
Norwest Insurance 10
Norwest Mortgage 10
Norwest Investment
Management and Trust 7
Norwest Financial 3
Norwest Ag Credit 2
ATI Title Company 2
Rural Community Insurance Services 1
Norwest Card Services 1
Public Finance 1

TENNESSEE

Norwest Financial 25
Norwest Mortgage 9
Fidelity Financial 7
Community Credit 1

TEXAS

Norwest Community Banking 216
Wells Fargo Community Banking 180
Investment Services 52
Norwest Financial 48
Norwest Mortgage 40
Norwest Investment
Management and Trust 17
Fidelity Financial 10
Norwest Card Services 6
Wells Fargo Commercial Banking 4
Norwest Equipment Finance 3
Norwest World Banking 2
Norwest Business Credit 2
Wells Fargo Commercial Mortgage 2
Commercial Real Estate 2
Norwest Insurance 1
Norwest Auto Finance 1
Foothill 1

Norwest Corporate Trust 1
Wells Fargo Trade Bank 1
Wells Fargo Foreign Exchange 1
Corporate Banking 1

UTAH

Wells Fargo Community Banking 24
Norwest Mortgage 13
Norwest Financial 13
Fidelity Financial 2
Norwest Business Credit 1
Community Credit 1
Wells Fargo Commercial Banking 1

VERMONT

Norwest Mortgage 2

VIRGINIA

Norwest Mortgage 14
Norwest Financial 10
ATI Title Company 2
Foothill 1

WASHINGTON

Wells Fargo Community Banking 134
Norwest Mortgage 37
Norwest Financial 21
Investment Services 6
Wells Fargo Commercial Banking 3
Fidelity Financial 2
Community Credit 2
Norwest Business Credit 1
Wells Fargo Trade Bank 1
Wells Fargo Foreign Exchange 1

WASHINGTON D.C.

Wells Fargo Commercial Mortgage 1
Wells Fargo Commercial Real Estate 1

WEST VIRGINIA

Norwest Financial 6
Norwest Mortgage 2

WISCONSIN

Norwest Community Banking 48
Norwest Mortgage 17
Investment Services 15
Norwest Financial 14
Community Credit 9
Norwest Investment
Management and Trust 7
Norwest Card Services 2
Fidelity Financial 2
Norwest Insurance 1
Norwest World Banking 1
Norwest Equipment Finance 1
Norwest Business Credit 1
Norwest Structured Finance 1
Norwest Employee Benefit Services 1
Norwest Corporate Trust 1

WYOMING

Norwest Community Banking 7
Norwest Mortgage 7
Investment Services 4
Norwest Financial 4
Norwest Investment
Management and Trust 2
Norwest Ag Credit 1
Norwest Corporate Trust 1

CANADA (TRANS CANADA CREDIT CORP.)

Ontario 43
Quebec 21
British Columbia 19
Nova Scotia 17
Newfoundland 15
New Brunswick 12
Alberta 10
Manitoba 4
Saskatchewan 4
Prince Edward Island 2

CARIBBEAN/CENTRAL AMERICA (ISLAND FINANCE)

Puerto Rico 108
Panama 16
Netherlands Antilles 8
Virgin Islands 8
Costa Rica 5
Aruba 3
Puerto Rico (Reliable Financial) 3

ARGENTINA

Finvercon — Buenos Aires 1

BRAZIL

Norwest World Banking - Sao Paulo 1

HONG KONG

Norwest World Banking 1

TAIWAN

Norwest World Banking — Taipei 1

NORWEST FINANCIAL (OTHER)

Dial National Bank 11
Norwest Financial Leasing 3
Aman Collection Service 1
Norwest Financial Business Credit 1
Dial Bank 1
Norwest Financial Resources 1

THIS FILE
HAS NO
CONTENT

On November 2, 1998, Norwest Corporation changed its name to "Wells Fargo & Company" upon the merger (the Merger) of the former Wells Fargo & Company (the former Wells Fargo) into a wholly-owned subsidiary of Norwest Corporation. Norwest Corporation as it was before the Merger is referred to as the former Norwest. The Merger was accounted for as a pooling of interests and, accordingly, the information included in the financial review presents the combined results as if the Merger had been in effect for all periods presented. Certain amounts in the financial review for prior years have been reclassified to conform with the current financial statement presentation.

Wells Fargo & Company is a \$202 billion diversified financial services company providing banking, mortgage and consumer finance through about 6,000 stores and other distribution channels throughout North America, including all 50 states, and elsewhere internationally. It ranks seventh in assets at December 31, 1998 among U.S. bank holding companies. In this Annual Report, Wells Fargo & Company together with its subsidiaries is referred to as the Company and Wells Fargo & Company alone is referred to as the Parent.

Net income in 1998 was \$1,950 million, compared with \$2,499 million in 1997, a decrease of 22%. Diluted earnings per common share were \$1.17, compared with \$1.48 in 1997, a decrease of 21%.

Return on average assets (ROA) was 1.04% and return on average common equity (ROE) was 9.86% in 1998, compared with 1.37% and 12.81%, respectively, in 1997.

Diluted earnings before the amortization of goodwill and nonqualifying core deposit intangible (CDI) ("cash" or "tangible" earnings) were \$1.50 per share in 1998, compared with \$1.83 per share in 1997. On the same basis, ROA was 1.39% and ROE was 23.15% in 1998, compared with 1.78% and 30.49%, respectively, in 1997.

Net interest income on a taxable-equivalent basis was \$9,049 million in 1998, compared with \$8,705 million a year ago. The Company's net interest margin was 5.79% for 1998, compared with 5.86% in 1997.

Noninterest income increased from \$5,675 million in 1997 to \$6,427 million in 1998, an increase of 13%.

Noninterest expense totaled \$10,579 million in 1998, compared with \$8,990 million in 1997. The increase was primarily due to the Merger-related charges incurred during the fourth quarter.

The provision for loan losses was \$1,545 million in 1998, compared with \$1,140 million in 1997. During 1998, net charge-offs were \$1,617 million, or 1.52% of average total loans, compared with \$1,305 million, or 1.25%, during 1997. The allowance for loan losses was \$3,134 million, or 2.90% of total loans, at December 31, 1998, compared with \$3,062 million, or 2.88%, at December 31, 1997.

At December 31, 1998, total nonaccrual and restructured loans were \$710 million, or .7% of total loans, compared with \$715 million, or .7%, at December 31, 1997. Other real estate (ORE) was \$173 million at December 31, 1998, compared with \$264 million at December 31, 1997.

The Company's direct credit risk related to the ongoing volatility of the financial markets in Asia and, more recently, Latin America is predominantly short-term in nature and is relatively insignificant. However, the primary risk to the Company is the long-term effect of the Asian and Latin American financial markets on the economy of the U.S. and the Company's borrowers. Understanding this risk is more difficult and depends on the passage of time. To date, while certain domestic sectors to which the Company has direct credit exposure have been adversely impacted by the disruptions in Asian financial markets, the results have not been material enough to create any significant credit losses for the Company.

At December 31, 1998, the ratio of common stockholders' equity to total assets was 10.02%, compared with 10.40% at December 31, 1997. The Company's total risk-based capital (RBC) ratio at December 31, 1998 was 10.90% and its Tier 1 RBC ratio was 8.08%, exceeding the minimum regulatory guidelines of 8% and 4%, respectively, for bank holding companies. The Company's ratios at December 31, 1997 were 11.20% and 8.16%, respectively. The Company's leverage ratios were 6.58% and 6.72% at December 31, 1998 and 1997, respectively, exceeding the minimum regulatory guideline of 3% for bank holding companies.

This Annual Report (including information incorporated by reference herein) includes forward-looking statements about the Company's financial condition, results of operations, plans, objectives and future performance and business. These statements generally include the words "believe," "expect," "anticipate," "estimate," "may," "will" or similar expressions that suggest the statements are forward looking in nature.

These forward-looking statements involve inherent risks and uncertainties. The Company cautions readers that a number of factors — many of which are beyond the control of the Company — could cause actual results to differ materially from those in the forward-looking statements. Among these factors are changes in political and economic conditions, interest rate fluctuations, technological changes (including the “Year 2000” data systems compliance issue), customer disintermediation, competitive product and pricing pressures in the Company’s geographic and product markets, equity and fixed income market fluctuations, personal and commercial customers’ bankruptcies, inflation, changes in law, changes in fiscal, monetary, regulatory and tax policies, monetary fluctuations, credit quality and credit risk management, mergers and acquisitions, the integration of merged and acquired companies, and success in gaining regulatory approvals when required.

Also, actual results may differ materially from those in the forward-looking statements because of factors relating to the combination of the former Wells Fargo and the former Norwest Corporation, including the following: expected cost savings from the Merger are not fully realized within the expected time frame or additional or unexpected costs are incurred; and costs or difficulties related to the integration of the former Wells Fargo and the former Norwest Corporation are greater than expected.

RECENT ACCOUNTING STANDARDS

The Company adopted on January 1, 1998, Statement of Financial Accounting Standards No. 130 (FAS 130), Reporting Comprehensive Income. This Statement sets standards for reporting and displaying comprehensive income and its components in the financial statements. It requires that a company classify items of other comprehensive income, as defined by accounting standards, by their nature in the financial statements. Other comprehensive income, as defined, is net of income taxes. Cumulative other comprehensive income is displayed separately in the equity section of the balance sheet and the consolidated statement of changes in stockholders’ equity and comprehensive income. For comparative purposes, financial statements for earlier periods provided have been reclassified. The amount of income tax expense or benefit allocated to each component of other comprehensive income is presented in Note 16 to Financial Statements.

TABLE 1: RATIOS AND PER COMMON SHARE DATA

(\$ in millions, except per share amounts)	Year ended December 31,		
	1998	1997	1996
PROFITABILITY RATIOS			
Net income to average total assets (ROA)	1.04%	1.37%	1.31%
Net income applicable to common stock to average common stockholders’ equity (ROE)	9.86	12.81	12.73
Net income to average stockholders’ equity	9.81	12.67	12.52
EFFICIENCY RATIO (1)	68.5%	62.8%	67.0%
NET INCOME AND RATIOS EXCLUDING GOODWILL AND NONQUALIFYING CORE DEPOSIT INTANGIBLE (CDI) AMORTIZATION AND BALANCES ("CASH" OR "TANGIBLE") (2)			
Net income applicable to common stock	\$2,465	\$3,031	\$2,616
Earnings per common share	1.52	1.85	1.68
Diluted earnings per common share	1.50	1.83	1.67
ROA	1.39%	1.78%	1.66%
ROE	23.15	30.49	28.55
Efficiency ratio	64.3	57.8	63.5
CAPITAL RATIOS			
At year end:			
Common stockholders’ equity to assets	10.02%	10.40%	10.21%
Stockholders’ equity to assets	10.25	10.65	10.63
Risk-based capital (3)			
Tier 1 capital	8.08	8.16	7.96
Total capital	10.90	11.20	11.11
Leverage (3)	6.58	6.72	6.36
Average balances:			
Common stockholders’ equity to assets	10.31	10.52	9.91
Stockholders’ equity to assets	10.56	10.82	10.48
PER COMMON SHARE DATA			
Dividend payout (4)	59%	41%	38%
Book value	\$12.35	\$11.92	\$11.66
Market prices (5):			
High	\$43.88	\$39.50	\$23.44
Low	27.50	21.63	15.25
Year end	39.94	38.75	21.75

(1) The efficiency ratio is defined as noninterest expense divided by the total of net interest income and noninterest income.

(2) Nonqualifying core deposit intangible (acquired after regulatory rule changes in 1992) amortization and average balance excluded from these calculations are, with the exception of the efficiency ratio, net of applicable taxes. The after-tax amounts for the amortization and average balance of nonqualifying CDI were \$129 million and \$906 million, respectively, for the year ended December 31, 1998. Goodwill amortization and average balance (which are not tax effected) were \$421 million and \$7,865 million, respectively, for the year ended December 31, 1998. See page 44 for additional information.

(3) See Note 22 to Financial Statements for additional information.

(4) Dividends declared per common share as a percentage of earnings per common share.

(5) Based on daily prices reported on the New York Stock Exchange Composite Transaction Reporting System.

The Company adopted on December 31, 1998, FAS 131, Disclosures about Segments of an Enterprise and Related Information. The Statement requires that a public business enterprise report financial and descriptive information about its reportable operating segments on the basis that is used internally for evaluating segment performance and deciding how to allocate resources to segments.

The Company adopted on December 31, 1998, FAS 132, Employers' Disclosures about Pensions and Other Postretirement Benefits. The Statement only addresses disclosure issues; it does not address measurement and recognition of pensions and other postretirement benefits. This Statement requires the reconciliation of changes in benefit obligations and plan assets for both pensions and other postretirement benefits, showing the effects of the major components separately for each reconciliation.

In June 1998, the Financial Accounting Standards Board (FASB) issued FAS 133, Accounting for Derivative Instruments and Hedging Activities, which will be effective for the Company's financial statements for periods beginning January 1, 2000. This Statement requires companies to record derivatives on the balance

sheet, measured at fair value. Changes in the fair values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The key criterion for hedge accounting is that the hedging relationship must be highly effective in achieving offsetting changes in fair value or cash flows. The Company has not yet determined when it will implement the Statement nor has it completed the complex analysis required to determine the impact on the financial statements.

In October 1998, the FASB issued FAS 134, Accounting for Mortgage-Backed Securities Retained after Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise. This Statement requires that after mortgage loans held for sale are securitized, an entity engaged in mortgage banking activities classify the resulting mortgage-backed securities or other retained interests based on its ability and intent to sell or hold investments. The Company implemented FAS 134 in the fourth quarter of 1998, and, accordingly, classifies its retained interests from securitizations as securities available for sale. The Statement did not have a material impact on the financial statements.

TABLE 2: SIX-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(in millions, except per share amounts)	1998	1997	1996	1995	1994	1993	% Change 1998/1997	Five-year compound growth rate
INCOME STATEMENT								
Net interest income	\$ 8,990	\$ 8,648	\$ 8,222	\$ 5,923	\$ 5,414	\$ 5,160	4%	12%
Provision for loan losses	1,545	1,140	500	312	365	708	36	17
Noninterest income	6,427	5,675	4,769	3,179	2,813	2,649	13	19
Noninterest expense	10,579	8,990	8,724	5,589	5,225	5,192	18	15
Net income	1,950	2,499	2,228	1,988	1,642	1,130	(22)	12
Earnings per common share	\$ 1.18	\$ 1.50	\$ 1.38	\$ 1.66	\$ 1.40	\$ 1.85	(21)	(9)
Diluted earnings per common share	1.17	1.48	1.36	1.62	1.36	1.74	(21)	(8)
Dividends declared per common share (1)	.70	.615	.525	.45	.383	.32	14	17
BALANCE SHEET								
(at year end)								
Securities available for sale	\$ 31,997	\$ 27,872	\$ 29,752	\$ 24,163	\$ 25,949	\$ 25,530	15%	5%
Loans	107,994	106,311	105,760	70,780	66,575	59,829	2	13
Allowance for loan losses	3,134	3,062	3,059	2,711	2,872	2,911	2	1
Goodwill	7,664	8,062	8,200	1,212	574	618	(5)	65
Assets	202,475	185,685	188,633	122,200	112,674	107,170	9	14
Core deposits	132,289	122,327	128,178	77,355	72,738	75,379	8	12
Long-term debt	19,709	17,335	18,142	16,726	12,039	11,072	14	12
Guaranteed preferred beneficial interests in Company's subordinated debentures	785	1,299	1,150	—	—	—	(40)	—
Common stockholders' equity	20,296	19,315	19,262	8,448	6,628	6,928	5	24
Stockholders' equity	20,759	19,778	20,051	9,239	7,629	7,947	5	21

(1) Dividends declared per common share represent the dividends of the former Norwest. Dividends declared per common share for the former Wells Fargo were \$5.20, \$5.20, \$5.20, \$4.60, \$4.00 and \$2.25 for 1998, 1997, 1996, 1995, 1994 and 1993, respectively.

merger of Norwest and Wells Fargo

On November 2, 1998, the former Wells Fargo merged with a subsidiary of Norwest Corporation, and Norwest changed its name to "Wells Fargo & Company." The Merger resulted in a combined diversified financial services company with \$202 billion in assets at December 31, 1998, the seventh largest bank holding company in the United States.

As a condition to the Merger, the Company was required by regulatory agencies to divest stores in Arizona and Nevada having aggregate deposits of approximately \$1 billion. In the fourth quarter of 1998, the Company entered into contracts to sell these stores. These sales are expected to be completed during the second quarter of 1999.

In connection with the Merger, approximately \$1 billion of Merger-related expenses were recognized in the fourth quarter of 1998, which included approximately \$600 million of costs related to the restructuring of systems and operations resulting from the Merger that qualified for immediate recognition. The remainder of the Merger-related expenses were primarily for irrevocable commitments to the Company's Foundation and fees for investment banking and other professional services resulting from the Merger.

The restructuring charges include write-downs of approximately \$100 million for premises. The remaining charges of approximately \$500 million primarily represent future cash outflows, substantially comprised of severance-related costs and costs related to the disposition of leased premises. These future cash

outflows are not expected to have a significant effect on the Company's liquidity, capital resources or results of operations.

The restructuring charges for premises result from the identification of specific premises that are held for sale or remarketing and are expected to be removed from operations during 1999, pursuant to Merger plans. Severance-related costs result from plans to eliminate redundant headquarters, back office and other positions into 2000.

Based on accounting rules, not all Merger-related expenses qualified for recognition in the fourth quarter of 1998. Additional Merger-related expenses will be expensed when incurred as systems and operations are combined. The Company estimates that Merger-related expenses will total about \$1.15 billion. The Company originally estimated total Merger-related expenses would be about \$950 million. The increase is due to the irrevocable commitments made to the Company's Foundation. Because of inherent uncertainties associated with merging two large companies, additional Merger-related costs, including additional restructuring charges, may result as the integration process continues.

The Company expects to meet its pre-Merger target of approximately \$650 million in annual pre-tax cost savings not later than 36 months after Merger consummation. About 50% of the cost savings are expected to be achieved within the first two years.

operating segment results

Community Banking's net income was \$1,644 million in 1998 compared with \$2,081 million in 1997, a decrease of 21%. Net interest income declined by \$121 million. A significant portion of the decrease in net interest income is due to the run-off and sales of credit card receivables and a decline in the former Wells Fargo real estate mortgage loans. Other loan portfolios remained stable. The provision for loan losses decreased by \$99 million. A significant portion of the \$607 million, or 17%, increase in noninterest income is due to increased fee revenue. The number of checking accounts grew 2% from year-end 1997 to 1998. Community Banking also experienced significant growth in assets under management. Total noninterest expense increased by \$1,359 million from 1997 due to Merger expense accruals, including irrevocable commit-

ments to the Company's Foundation in connection with the Merger. Major changes in Community Banking from 1996 to 1997 are attributed to the acquisition of First Interstate Bancorp (First Interstate) effective April 1, 1996. First Interstate results prior to April 1, 1996 are not included and, therefore, the year 1997 is not comparable to 1996.

Wholesale Banking's net income was \$780 million in 1998 compared with \$792 million in 1997. Net interest income was flat for the year-over-year period. The increasing competitive lending environment in 1998 led to a decrease in the yields realized on the core commercial loan portfolio. In addition, interest recoveries were lower in 1998 compared with 1997. Offsetting these unfavorable conditions was an increase in commercial loan volume of \$2 billion. Real estate and

construction loan balances were flat from 1997 to 1998. The year-over-year improvement in noninterest income was due to a \$54 million increase in fee revenue, as well as foreign exchange gains and acquisition, development and construction (ADC) income. The increase was primarily offset by mark-to-market adjustments of the high-yield trading portfolio and commercial mortgages originated for sale. The adjustments occurred as a result of the general market volatility that occurred near the end of the third quarter of 1998. Noninterest expense increased \$56 million from 1997 due to a \$34 million reduction in foreclosed asset gains and an increase in incentive compensation related to increased loan volume. Other operating expenses remained relatively flat. Major changes in Wholesale Banking from 1996 to 1997 are attributed to the acquisition of First Interstate effective April 1, 1996. First Interstate results prior to April 1, 1996 are not included and, therefore, the year 1997 is not comparable to 1996.

Mortgage Banking earned \$217 million in 1998, a 44% increase over the \$151 million earned in 1997, which was 21% over the \$125 million earned in 1996. The increases were principally due to increases in mortgage loan fundings and the growth in the servicing portfolio. Fundings were \$109 billion in 1998, compared with \$55 billion and \$52 billion in 1997 and 1996, respectively. The increases in funding volume were attributable in part to the low mortgage interest rates in 1998 which encouraged homeowners to refinance their mortgage loans. The percentage of fundings attributed to mortgage loan refinancings was approximately 52% in 1998 compared to 23% and 22% in 1997 and 1996, respectively. The servicing portfolio increased to \$245 billion at December 31, 1998 from \$206 billion at December 31, 1997. The weighted average coupon of loans in the servicing portfolio was 7% at December 31, 1998 compared with 8% a year earlier. Total capitalized

mortgage servicing rights amounted to \$3 billion or 126 basis points of the servicing portfolio at December 31, 1998. Amortization of capitalized mortgage servicing rights was \$785 million in 1998, compared with \$444 million and \$301 million in 1997 and 1996, respectively. Higher levels of amortization reflect increased assumed prepayments due to a lower interest rate environment and increased balances of capitalized mortgage servicing associated with a larger servicing portfolio. Combined gains on sales of mortgages and servicing rights were \$312 million in 1998, compared with \$89 million and \$70 million in 1997 and 1996, respectively.

Norwest Financial reported a net loss of \$19 million in 1998, which included a \$351 million charge to the provision for loan losses in the fourth quarter. This charge includes losses at Island Finance reflecting a fourth quarter review of the loan portfolio and realignment of charge-off policies in other operating units. Norwest Financial's earnings for 1997 decreased 9% from the \$265 million earned in 1996. The 1997 net earnings include \$27 million in charges related to the acquisition of Fidelity Acceptance Corporation, an automobile finance company with \$1 billion in receivables and 150 locations in 31 states and Guam. Net interest income rose 12% in 1998 and 9% in 1997. Increases in average loans reflect internal growth as well as acquisitions. The net interest margin decreased 37 basis points in 1998 and 17 basis points in 1997 reflecting a change in the portfolio mix. Norwest Financial's noninterest expense increased 16% in 1998 and 10% in 1997 primarily due to higher expenses from acquisitions.

earnings performance

NET INTEREST INCOME

Net interest income is the difference between interest income (which includes yield-related loan fees) and interest expense. Net interest income on a taxable-equivalent basis was \$9,049 million in 1998, compared with \$8,705 million in 1997.

Net interest income on a taxable-equivalent basis expressed as a percentage of average total earning assets is referred to as the net interest margin, which represents the average net effective yield on earning

assets. For 1998, the net interest margin was 5.79%, compared with 5.86% in 1997.

Table 4 presents the individual components of net interest income and net interest margin.

The increase in net interest income for 1998 compared with 1997 was primarily due to an increase in earning assets, which includes the effects of a significantly higher volume of mortgage origination activity during 1998. This activity also served to reduce the net interest margin in 1998 due to the lower yields provided by mortgages held for sale relative to the average yield of all other earning assets.

Interest income included hedging income of \$93 million in 1998, compared with \$79 million in 1997. Interest expense included hedging income of \$94 million in 1998, compared with \$81 million in 1997.

NONINTEREST INCOME

Table 3 shows the major components of noninterest income.

TABLE 3: NONINTEREST INCOME

(in millions)	Year ended December 31,			% Change	
	1998	1997	1996	1998/ 1997	1997/ 1996
Service charges on deposit accounts	\$1,357	\$1,244	\$1,198	9%	4%
Trust and investment fees and commissions:					
Asset management and custody fees	676	603	510	12	18
Mutual fund and annuity sales fees	300	273	190	10	44
All other	92	78	75	18	4
Total trust and investment fees and commissions	1,068	954	775	12	23
Credit card fee revenue	520	448	350	16	28
Other fees and commissions:					
ATM network fees	229	176	107	30	64
Charges and fees on loans	290	254	209	14	22
All other	427	396	373	8	6
Total other fees and commissions	946	826	689	15	20
Mortgage banking:					
Origination and other closing fees	530	314	305	69	3
Servicing fees, net of amortization	19	324	318	(94)	2
Net gains (losses) on sales of mortgage servicing rights	16	(8)	57	—	—
Net gains on sales of mortgages	296	120	13	147	823
Other	245	177	151	38	17
Total mortgage banking	1,106	927	844	19	10
Insurance	348	336	280	4	20
Net venture capital gains	113	191	256	(41)	(25)
Net gains on securities available for sale	169	99	12	71	725
Income from equity investments accounted for by the:					
Cost method	151	157	137	(4)	15
Equity method	47	57	24	(18)	138
Net gains (losses) from dispositions of operations	100	15	(95)	567	—
Net gains on sales of loans	61	30	22	103	36
All other	441	391	277	13	41
Total	\$6,427	\$5,675	\$4,769	13%	19%

The increase in service charges on deposit accounts and other fees and commissions reflects overall increases in business activity due to acquisitions and marketing efforts along with an increase in fees.

The increase in trust and investment fees and commissions for 1998 was primarily due to an overall increase in mutual fund management fees, reflecting the overall growth in fund families' net assets. The Company managed 85 mutual funds consisting of \$51.4 billion of assets at December 31, 1998 that included 42 Stagecoach Funds (\$27.6 billion) and 43 Norwest Advantage Funds (\$23.8 billion), compared with 78 mutual funds consisting of \$41.9 billion of assets at December 31, 1997 that included 36 Stagecoach Funds (\$23.3 billion) and 42 Norwest Advantage Funds (\$18.6 billion). The Company also managed or maintained personal trust, employee benefit trust and agency assets of approximately \$324.8 billion and \$285.0 billion at December 31, 1998 and 1997, respectively.

The increase in mortgage banking revenue is attributed to increases in origination and other closing fees and gains on sales of mortgages and servicing rights, net of increased amortization of capitalized mortgage servicing rights, related to the low mortgage interest rate environment.

The majority of the gains from disposition of operations were related to the sale by the former Wells Fargo of its mortgage servicing business to GMAC Mortgage Corporation in the second quarter of 1998.

At December 31, 1997, the Company had a liability of \$48 million related to the disposition of premises and, to a lesser extent, severance and miscellaneous expenses associated with 65 stores not acquired as a result of the acquisition of First Interstate Bancorp or with former First Interstate stores that were identified in the fourth quarter of 1997 for closure in 1998. Of the 65 stores, 33 stores were closed in 1998. In 1998, the Company evaluated the remaining 32 stores scheduled to close and decided to retain them, which resulted in reducing the liability by \$18 million. The decision was made based on numerous factors, including the need to maintain customer service levels, as well as improved profitability for these 32 stores. These developments were not anticipated or foreseen at the time these accruals were originally recorded. At December 31, 1998, there was no remaining liability.

TABLE 4: AVERAGE BALANCES, YIELDS AND RATES PAID (TAXABLE-EQUIVALENT BASIS) (1)(2)

(in millions)	1998			1997		
	Average balance	Yields/ rates	Interest income/ expense	Average balance	Yields/ rates	Interest income/ expense
EARNING ASSETS						
Federal funds sold and securities purchased under resale agreements	\$ 1,652	5.58%	\$ 92	\$ 1,131	5.39%	\$ 61
Securities available for sale (3):						
Securities of U.S. Treasury and federal agencies	4,868	5.94	287	5,078	6.16	312
Securities of U.S. states and political subdivisions	1,528	8.50	124	1,352	8.49	112
Mortgage-backed securities:						
Federal agencies	17,194	7.05	1,187	19,844	7.13	1,403
Private collateralized mortgage obligations	2,841	6.74	190	3,024	6.81	206
Total mortgage-backed securities	20,035	7.01	1,377	22,868	7.09	1,609
Other securities	1,783	5.06	103	1,373	4.72	67
Total securities available for sale	28,214	6.80	1,891	30,671	6.88	2,100
Securities held to maturity	—	—	—	—	—	—
Total securities	28,214	6.80	1,891	30,671	6.88	2,100
Loans held for sale (3)	4,804	7.71	371	3,849	8.11	312
Mortgages held for sale (3)	12,978	6.92	898	6,741	7.27	490
Loans:						
Commercial	33,271	8.93	2,971	29,951	9.18	2,748
Real estate 1-4 family first mortgage	13,652	8.90	1,215	15,866	8.75	1,341
Other real estate mortgage	16,257	9.37	1,523	16,205	9.58	1,552
Real estate construction	3,601	9.39	338	3,298	9.92	327
Consumer:						
Real estate 1-4 family junior lien mortgage	9,983	9.17	903	9,880	9.39	949
Credit card	6,012	14.96	900	6,663	14.53	968
Other revolving credit and monthly payment	16,497	12.78	2,109	16,947	12.42	2,105
Total consumer	32,492	12.55	3,912	33,490	12.28	4,022
Lease financing	5,608	8.22	461	4,285	8.38	359
Foreign	1,324	20.96	277	1,042	20.31	212
Total loans (4)(5)	106,205	10.07	10,697	104,137	10.14	10,561
Other	2,853	5.82	166	2,273	5.93	134
Total earning assets	<u>\$156,706</u>	9.03	<u>14,115</u>	<u>\$148,802</u>	9.19	<u>13,658</u>
FUNDING SOURCES						
Deposits:						
Interest-bearing checking	\$ 2,221	1.23	27	\$ 3,016	1.66	50
Market rate and other savings	52,909	2.60	1,375	51,182	2.58	1,322
Savings certificates	27,749	5.22	1,448	28,581	5.27	1,506
Other time deposits	4,040	5.49	222	3,708	5.64	209
Deposits in foreign offices	801	4.82	39	1,287	4.85	62
Total interest-bearing deposits	87,720	3.55	3,111	87,774	3.59	3,149
Short-term borrowings	14,454	5.37	777	11,362	5.37	610
Long-term debt	17,411	6.30	1,097	17,149	6.38	1,093
Guaranteed preferred beneficial interests in Company's subordinated debentures	1,010	8.06	81	1,287	7.82	101
Total interest-bearing liabilities	120,595	4.20	5,066	117,572	4.21	4,953
Portion of noninterest-bearing funding sources	36,111	—	—	31,230	—	—
Total funding sources	<u>\$156,706</u>	3.24	<u>5,066</u>	<u>\$148,802</u>	3.33	<u>4,953</u>
Net interest margin and net interest income on a taxable-equivalent basis (6)		<u>5.79%</u>	<u>\$ 9,049</u>		<u>5.86%</u>	<u>\$ 8,705</u>
NONINTEREST-EARNING ASSETS						
Cash and due from banks	\$ 10,669			\$ 11,609		
Goodwill	7,865			8,186		
Other	13,115			13,653		
Total noninterest-earning assets	<u>\$ 31,649</u>			<u>\$ 33,448</u>		
NONINTEREST-BEARING FUNDING SOURCES						
Deposits	\$ 40,922			\$ 37,710		
Other liabilities	6,958			7,243		
Preferred stockholders' equity	463			554		
Common stockholders' equity	19,417			19,171		
Noninterest-bearing funding sources used to fund earning assets	(36,111)			(31,230)		
Net noninterest-bearing funding sources	<u>\$ 31,649</u>			<u>\$ 33,448</u>		
TOTAL ASSETS	<u>\$188,355</u>			<u>\$182,250</u>		

(1) The average prime rate of the Company was 8.35%, 8.44%, 8.27%, 8.83% and 7.14% for 1998, 1997, 1996, 1995 and 1994, respectively. The average three-month London Interbank Offered Rate (LIBOR) was 5.56%, 5.74%, 5.51%, 6.04% and 4.75% for the same years, respectively.

(2) Interest rates and amounts include the effects of hedge and risk management activities associated with the respective asset and liability categories.

(3) Yields are based on amortized cost balances.

1996			1995			1994		
Average balance	Yields/rates	Interest income/expense	Average balance	Yields/rates	Interest income/expense	Average balance	Yields/rates	Interest income/expense
\$ 1,596	5.46%	\$ 87	\$ 645	5.83%	\$ 38	\$ 629	4.22%	\$ 27
3,730	5.95	221	1,604	6.60	105	1,836	5.84	107
907	8.89	79	124	20.80	9	123	23.25	29
20,199	6.98	1,410	13,897	7.27	1,017	11,822	6.63	801
2,852	6.51	187	1,252	6.39	82	1,372	6.16	88
23,051	6.92	1,597	15,149	7.19	1,099	13,194	6.58	889
1,567	5.03	77	750	12.06	50	597	13.89	77
29,255	6.76	1,974	17,627	7.48	1,263	15,750	6.88	1,102
—	—	—	7,666	5.40	477	10,180	5.39	549
29,255	6.76	1,974	25,293	5.40	1,740	25,930	6.37	1,651
3,560	9.22	328	2,557	8.88	227	1,713	7.49	128
6,889	7.68	529	4,996	7.86	393	3,764	7.19	271
27,547	9.15	2,520	17,773	9.67	1,718	15,017	8.64	1,298
15,522	8.64	1,301	11,883	8.51	976	13,522	7.77	1,022
15,612	9.21	1,438	11,742	9.40	1,104	11,513	8.51	980
2,940	10.25	301	1,833	10.06	184	1,553	9.00	140
8,995	9.11	844	7,512	8.64	678	6,309	7.77	519
6,505	15.03	979	5,939	15.54	923	4,771	15.14	722
16,505	12.25	2,022	10,887	13.26	1,444	8,935	12.27	1,096
32,005	12.24	3,845	24,338	13.16	3,045	20,015	12.18	2,337
3,347	8.15	272	2,284	8.51	194	1,952	8.32	162
950	20.52	195	704	23.01	162	555	21.58	120
97,923	10.08	9,872	70,557	10.47	7,383	64,127	9.45	6,059
1,696	5.51	94	940	5.87	55	746	6.77	50
<u>\$140,919</u>	9.15	<u>12,884</u>	<u>\$104,988</u>	9.36	<u>9,836</u>	<u>\$ 96,909</u>	8.42	<u>8,186</u>
\$ 6,749	1.38	93	\$ 6,423	1.24	80	\$ 6,801	1.17	80
45,049	2.68	1,207	28,622	2.78	796	31,846	2.32	740
26,853	5.17	1,390	18,889	5.33	1,007	16,824	4.44	748
3,245	5.77	187	2,244	5.81	131	1,843	5.01	93
719	4.76	34	2,381	5.86	139	1,257	4.62	58
82,615	3.52	2,911	58,559	3.68	2,153	58,571	2.93	1,719
10,692	5.25	562	12,682	5.88	746	9,075	4.39	399
18,283	6.24	1,140	14,996	6.53	980	10,948	5.73	627
82	7.81	6	—	—	—	—	—	—
111,672	4.14	4,619	86,237	4.50	3,879	78,594	3.49	2,745
29,247	—	—	18,751	—	—	18,315	—	—
<u>\$140,919</u>	3.28	<u>4,619</u>	<u>\$104,988</u>	3.69	<u>3,879</u>	<u>\$ 96,909</u>	2.82	<u>2,745</u>
	<u>5.87%</u>	<u>\$ 8,265</u>		<u>5.67%</u>	<u>\$5,957</u>		<u>5.60%</u>	<u>\$5,441</u>
\$ 11,442			\$ 5,858			\$ 5,559		
6,477			895			600		
11,051			5,273			3,853		
<u>\$ 28,970</u>			<u>\$ 12,026</u>			<u>\$ 10,012</u>		
\$ 34,952			\$ 19,070			\$ 17,723		
5,466			3,246			2,681		
968			942			865		
16,831			7,519			7,058		
(29,247)			(18,751)			(18,315)		
<u>\$ 28,970</u>			<u>\$ 12,026</u>			<u>\$ 10,012</u>		
<u>\$169,889</u>			<u>\$117,014</u>			<u>\$106,921</u>		

(4) Interest income includes loan fees, net of deferred costs, of approximately \$120 million, \$103 million, \$86 million, \$40 million and \$37 million in 1998, 1997, 1996, 1995 and 1994, respectively.

(5) Nonaccrual loans and related income are included in their respective loan categories.

(6) Includes taxable-equivalent adjustments that primarily relate to income on certain loans and securities that is exempt from federal and applicable state income taxes. The federal statutory tax rate was 35% for all years presented.

NONINTEREST EXPENSE

Table 5 shows the major components of noninterest expense.

TABLE 5: NONINTEREST EXPENSE

(in millions)	Year ended December 31,			% Change	
	1998	1997	1996	1998/ 1997	1997/ 1996
Salaries and benefits	\$ 4,416	\$3,811	\$3,624	16%	5%
Equipment	900	739	724	22	2
Net occupancy	764	719	688	6	5
Goodwill	421	433	339	(3)	28
Core deposit intangible:					
Nonqualifying (1)	217	240	227	(10)	6
Qualifying	26	33	38	(21)	(13)
Net losses on dispositions of premises and equipment	325	76	45	328	69
Operating losses	152	374	189	(59)	98
Outside professional services	391	262	254	49	3
Contract services	342	271	329	26	(18)
Telecommunications	252	241	234	5	3
Outside data processing	250	217	216	15	—
Advertising and promotion	237	202	234	17	(14)
Postage	228	210	206	9	2
Travel and entertainment	212	188	188	13	—
Stationery and supplies	178	182	192	(2)	(5)
Insurance	132	122	90	8	36
Security	84	87	56	(3)	55
All other	1,052	583	851	80	(31)
Total	<u>\$10,579</u>	<u>\$8,990</u>	<u>\$8,724</u>	<u>18%</u>	<u>3%</u>

(1) Amortization of core deposit intangible acquired after February 1992 that is subtracted from stockholders' equity in computing regulatory capital for bank holding companies.

A major portion of the increase in salaries and benefits was due to severance and other employee-related costs related to the Merger. The increase was also due to an increase in staff levels.

The Company's active full-time equivalent (FTE) staff, including hourly employees, was 92,178 at December 31, 1998, compared with 88,671 at December 31, 1997.

The increase in equipment expense was primarily due to personal computer purchases during the fourth quarter, mostly related to the replacement of personal computers.

The increase in net losses on dispositions of premises and equipment was due to Merger-related costs associated with the disposition of leased and owned premises.

Goodwill and CDI amortization resulting from the First Interstate acquisition were \$288 million and \$199 million, respectively, for the year ended December 31, 1998, compared with \$292 million and \$223 million, respectively, for the year ended December 31, 1997. The core deposit intangible is amortized on an accelerated basis based on an estimated useful life of 15 years. The effect on noninterest expense from the amortization of the nonqualifying core deposit intangible in 1999, 2000

and 2001 is expected to be \$178 million, \$162 million and \$147 million, respectively. The related effect on income tax expense is expected to be a benefit of \$68 million, \$62 million and \$56 million in 1999, 2000 and 2001, respectively.

The increase in outside professional services was primarily due to fees for investment banking and other professional services resulting from the Merger.

A major portion of the increase in the "All Other" category was due to the accrual of \$208 million of irrevocable commitments to the Company's Foundation in connection with the Merger.

During 1998, the former Norwest and the former Wells Fargo continued with their enterprise-wide project to prepare the Company's systems for Year 2000 compliance. The Year 2000 issue relates to computer systems that use two digits rather than four to define the applicable year and whether such systems will properly process information when the year changes to 2000. "Systems" includes hardware, networks, system and application software, and commercial "off the shelf" software, and embedded technology such as properties/date impacted processors in automated systems such as elevators, telephone systems, security systems, vault systems, heating and cooling systems and others. Priority is given to "mission critical" systems. A system is considered "mission critical" if it is vital to the successful continuation of a core business activity.

The former Norwest's Year 2000 readiness project is divided into four phases — Phase I: a comprehensive assessment and inventory of applicable software, system hardware devices, data and voice communication devices and embedded technology to determine Year 2000 vulnerability and risk; Phase II: date detection on systems to determine which systems must be remediated and which systems are compliant and require testing only, determination of the resources and costs, and the development of schedules; Phase III: repair, replacement and/or retirement of systems that are determined not to be Year 2000 compliant, and planning the integration testing for those systems that have interfaces with other systems both internal and external to the Company, such as customers and suppliers; and Phase IV: integration testing on applicable systems to validate that interfaces are Year 2000 compliant and contingency planning. The former Norwest has substantially completed Phases I, II and III of its Year 2000 project.

The former Wells Fargo uses a four-phase plan for achieving Year 2000 readiness. The Assessment Phase (Phase I) determines which computers, operating systems, applications and facilities require remediation and prioritizing those remediation efforts. This has been completed except for the on-going assessment of new systems. The Renovation Phase (Phase II) corrects or replaces any non-compliant hardware, software or facilities. This phase has been substantially completed. All renovated software,

both in-house applications and vendor software, was placed back into production before the Validation Phase (Phase III). The Validation Phase, which tests in-house systems, vendor software and service providers, is in process. During Phase IV, the Implementation Phase, remediated and validated code will be tested in interfaces with customers, business partners, government institutions and others.

It is anticipated that the Company will have substantially completed the unfinished phases discussed in the preceding two paragraphs by June 30, 1999. The Company's Year 2000 Project Office oversees the Year 2000 efforts of the Company and all of its subsidiaries. Representatives from other areas of the Company, including the law department, audit, risk management and corporate communications, provide support for the Year 2000 project. In addition, as a financial services organization, the Company is under the supervision of federal regulatory agencies which have provided guidelines and are performing ongoing monitoring of the Year 2000 readiness of the Company.

The Company may be affected by the Year 2000 compliance issues of governmental agencies, businesses and other entities who provide data to, or receive data from, the Company, and by entities, such as borrowers, vendors, customers and business partners, whose financial condition or operational capability is significant to the Company. The Company's Year 2000 project also includes assessing the Year 2000 readiness of certain customers, borrowers, vendors, business partners, counterparties and governmental entities and the testing of major external interfaces with third parties which the Company has determined are critical. Using a combination of surveys and direct communication, the Company has evaluated its major credit customers, assessed their Year 2000 efforts, and incorporated any identified Year 2000 customer risks into the Company's credit risk analysis processes. In addition to assessing the readiness of these external parties, the Company is developing contingency plans which will include plans to recover operations and alternatives to mitigate the effects of counterparties whose failure to properly address Year 2000 issues may adversely affect the Company's ability to perform certain functions. These contingency plans are expected to be substantially completed by June 30, 1999.

The Company currently estimates that its total cost for the Year 2000 project will approximate \$315 million. Through December 31, 1998, the Company has incurred charges of \$202 million related to its Year 2000 project of which \$176 million total expenditures were incurred in 1998. Charges for the former Norwest include the cost of internal staff redeployed to the Year 2000 project, as well as external consulting costs and costs of accelerated replacement of hardware and software due to Year 2000 issues. Charges for the former Wells Fargo include the cost of external consulting and costs of accelerated

replacement of hardware and software, but do not include the cost of internal staff redeployed to the Year 2000 project. The Company does not believe that the redeployment of internal staff for the former Wells Fargo will have a material impact on the financial condition or results of operations for the Company.

The previous paragraphs contain a number of forward-looking statements. These statements reflect management's best current estimates, which were based on numerous assumptions about future events, including the continued availability of certain resources, representations received from third party service providers and other third parties, and additional factors. There can be no guarantee that these estimates, including Year 2000 costs, will be achieved, and actual results could differ materially from those estimates. A number of important factors could cause management's estimates and the impact of the Year 2000 issue to differ materially from what is described in the forward-looking statements contained in the above paragraphs. Those factors include, but are not limited to, uncertainties in the cost of hardware and software, the availability and cost of programmers and other systems personnel, inaccurate or incomplete execution of the phases, ineffective remediation of computer code, and whether the Company's customers, vendors, competitors and counterparties effectively address the Year 2000 issue.

If Year 2000 issues are not adequately addressed by the Company and significant third parties, the Company's business, results of operations and financial position could be materially adversely affected. Failure of certain vendors to be Year 2000 compliant could result in disruption of important services upon which the Company depends, including, but not limited to, such services as telecommunications, electrical power and data processing. Failure of the Company's loan customers to properly prepare for the Year 2000 could also result in increases in problem loans and credit losses in future years. Notwithstanding the Company's efforts, there can be no assurance that the Company or significant third party vendors or other significant third parties will adequately address their Year 2000 issues. The Company is continuing to assess the Year 2000 readiness of third parties but does not know at this time whether the failure of third parties to be Year 2000 compliant will have a material effect on the Company's results of operations, liquidity and financial condition.

The forward-looking statements made in the foregoing Year 2000 discussion speak only as of the date on which such statements are made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

The Year 2000 disclosures contained in this Annual Report are designated as Year 2000 Readiness Disclosures related to the Year 2000 Information and Readiness Disclosure Act.

EARNINGS/RATIOS EXCLUDING GOODWILL AND NONQUALIFYING CDI

Table 6 reconciles reported earnings to net income excluding goodwill and nonqualifying core deposit intangible amortization ("cash" or "tangible") for the year ended December 31, 1998. Table 7 presents the

calculation of the ROA, ROE and efficiency ratios excluding goodwill and nonqualifying core deposit intangible amortization and balances for the year ended December 31, 1998. These calculations were specifically formulated by the Company and may not be comparable to similarly titled measures reported by other companies. Also, "cash" or "tangible" earnings are not entirely available for use by management. See the Consolidated Statement of Cash Flows and Note 3 to Financial Statements for other information regarding funds available for use by management.

TABLE 6: EARNINGS EXCLUDING GOODWILL AND NONQUALIFYING CDI

(in millions, except per share amounts)	Year ended December 31, 1998			
	Reported earnings	Goodwill	Amortization Nonqualifying core deposit intangible	"Cash" earnings
Income before income tax expense	\$3,293	\$421	\$217	\$3,931
Income tax expense	<u>1,343</u>	<u>—</u>	<u>88</u>	<u>1,431</u>
Net income	1,950	421	129	2,500
Preferred stock dividends	<u>35</u>	<u>—</u>	<u>—</u>	<u>35</u>
Net income applicable to common stock	<u>\$1,915</u>	<u>\$421</u>	<u>\$129</u>	<u>\$2,465</u>
Earnings per common share	<u>\$ 1.18</u>	<u>\$.26</u>	<u>\$.08</u>	<u>\$ 1.52</u>
Diluted earnings per common share	<u>\$ 1.17</u>	<u>\$.25</u>	<u>\$.08</u>	<u>\$ 1.50</u>

TABLE 7: RATIOS EXCLUDING GOODWILL AND NONQUALIFYING CDI

(in millions)
Year ended December 31, 1998

ROA:	A/(C-E)	=	1.39%
ROE:	B/(D-E)	=	23.15%
Efficiency:	(F-G)/H	=	64.31%

Net income	\$ 2,500 (A)
Net income applicable to common stock	2,465 (B)
Average total assets	188,355 (C)
Average common stockholders' equity	19,417 (D)
Average goodwill (\$7,865) and after-tax nonqualifying core deposit intangible (\$906)	8,771 (E)
Noninterest expense	10,579 (F)
Amortization expense for goodwill and nonqualifying core deposit intangible	638 (G)
Net interest income plus noninterest income	15,417 (H)

balance sheet analysis

A comparison between the year-end 1998 and 1997 balance sheets is presented below.

SECURITIES AVAILABLE FOR SALE

Total securities available for sale averaged \$28.2 billion in 1998, an 8% decrease from \$30.7 billion in 1997. Total securities available for sale were \$32.0 billion at December 31, 1998, a 15% increase from \$27.9 billion at December 31, 1997.

The securities available for sale portfolio includes both debt and marketable equity securities. At December 31, 1998, the securities available for sale portfolio had an unrealized net gain of \$830 million, comprised of unrealized gross gains of \$919 million and unrealized gross losses of \$89 million. At December 31, 1997, the

securities available for sale portfolio had an unrealized net gain of \$740 million, comprised of unrealized gross gains of \$787 million and unrealized gross losses of \$47 million. The unrealized net gain or loss on securities available for sale is reported on an after-tax basis as a valuation allowance that is a component of cumulative other comprehensive income. At December 31, 1998, the valuation allowance amounted to an unrealized net gain of \$477 million, compared with an unrealized net gain of \$474 million at December 31, 1997.

The unrealized net gain in the debt securities portion of the securities available for sale portfolio at December 31, 1998 was primarily attributable to mortgage-backed securities, reflecting a decrease in interest rates since the time of purchase. The Company may decide to

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The Company anticipates normal influxes of nonaccrual loans as it further increases its lending activity as well as resolutions of loans in the nonaccrual portfolio. The performance of any individual loan can be affected by external factors, such as the interest rate environment or factors particular to a borrower such as actions taken by a borrower's management. In addition, from time to time, the Company purchases loans from other financial institutions that may be classified as nonaccrual based on its policies.

The Company generally identifies loans to be evaluated for impairment under FAS 114, Accounting by Creditors for Impairment of a Loan, when such loans are on nonaccrual or have been restructured. However, not all nonaccrual loans are impaired. Generally, a loan is placed on nonaccrual status upon becoming 90 days past due as to interest or principal (unless both well-secured and in the process of collection), when the full timely collection of interest or principal becomes uncertain or when a portion of the principal balance has been charged off. Real estate 1-4 family loans (both first liens and junior liens) are placed on nonaccrual status within 120 days of becoming past due as to interest or principal, regardless of security. In contrast, under FAS 114, loans are considered impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest payments. For a loan that has been restructured, the contractual terms of the loan agreement refer to the contractual terms specified by the original loan agreement, not the contractual terms specified by the restructuring agreement. Not all impaired loans are necessarily placed on nonaccrual status. That is, restructured loans performing under restructured terms beyond a specified performance period are classified as accruing but may still be deemed impaired under FAS 114.

For loans covered under FAS 114, the Company makes an assessment for impairment when and while such loans are on nonaccrual, or the loan has been restructured. When a loan with unique risk characteristics has been identified as being impaired, the Company will measure the amount of impairment using discounted cash flows, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the underlying collateral. In such cases, the current fair value of the collateral, reduced by costs to sell, will be used in place of discounted cash flows. Additionally, some impaired loans with commitments of less than \$1 million are aggregated for the purpose of measuring impairment using historical loss factors as a means of measurement.

If the measurement of the impaired loan is less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs and unamortized premium or discount), an impairment is recognized by creating or adjusting an existing allocation of the

allowance for loan losses. FAS 114 does not change the timing of charge-offs of loans to reflect the amount ultimately expected to be collected.

If interest due on the book balances of all nonaccrual and restructured loans (including loans no longer on nonaccrual or restructured at year end) had been accrued under their original terms, \$68 million of interest would have been recorded in 1998, compared with \$26 million actually recorded.

Other real estate (ORE) at December 31, 1998 decreased to \$173 million from \$264 million at December 31, 1997. A majority of ORE at December 31, 1998 has been in the portfolio three years or less, with land and agricultural properties representing a significant portion of the amount greater than three years old.

LOANS 90 DAYS OR MORE PAST DUE AND STILL ACCRUING

Table 9 shows loans contractually past due 90 days or more as to interest or principal, but not included in the nonaccrual or restructured categories. All loans in this category are both well-secured and in the process of collection or are real estate 1-4 family first mortgage loans or consumer loans that are exempt under regulatory rules from being classified as nonaccrual because they are automatically charged off after being past due for a prescribed period (generally, within 180 days). Notwithstanding, real estate 1-4 family loans (first liens and junior liens) are placed on nonaccrual within 120 days of becoming past due and such nonaccrual loans are excluded from Table 9.

TABLE 9: LOANS 90 DAYS OR MORE PAST DUE AND STILL ACCRUING

(in millions)	December 31,				
	1998	1997	1996	1995	1994
Commercial	\$ 9	\$ 11	\$ 69	\$ 13	\$ 8
Real estate					
1-4 family					
first mortgage	17	37	43	9	18
Other real estate					
mortgage	41	35	78	32	52
Real estate					
construction	6	13	10	3	1
Consumer:					
Real estate					
1-4 family junior					
lien mortgage	32	42	23	4	4
Credit card	133	154	140	113	70
Other revolving					
credit and					
monthly					
payment	104	105	81	62	23
Total consumer	269	301	244	179	97
Total	<u>\$342</u>	<u>\$397</u>	<u>\$444</u>	<u>\$236</u>	<u>\$176</u>

ALLOWANCE FOR LOAN LOSSES

An analysis of the changes in the allowance for loan losses, including charge-offs and recoveries by loan category, is presented in Note 5 to Financial Statements. At December 31, 1998, the allowance for loan losses was \$3,134 million, or 2.90% of total loans, compared with \$3,062 million, or 2.88%, at December 31, 1997 and \$3,059 million, or 2.89%, at December 31, 1996. The provision for loan losses totaled \$1,545 million in 1998, \$1,140 million in 1997 and \$500 million in 1996. Of these amounts, the former Wells Fargo provided \$670 million for loan losses in 1998, \$615 million in 1997 and \$105 million in 1996. This trend of increasing provision expense at the former Wells Fargo followed a period from 1993 to 1995 during which the Company had reduced its provision as its loan portfolio (particularly in California) had made a gradual recovery in credit quality following the recessionary economic environment of 1991 and 1992. Throughout this period the Company considered its allowance for loan losses adequate in relation to its existing loan portfolio. The provision for loan losses in 1998 approximated net charge-offs, and the Company anticipates that it will continue to make a provision in 1999 which is similarly close to the level of actual net losses. Net charge-offs in 1998 were \$1,617 million, or 1.52% of average total loans, compared with \$1,305 million, or 1.25%, in 1997 and \$1,022 million, or 1.04%, in 1996. Loan loss recoveries were \$427 million in 1998, compared with \$426 million in 1997 and \$349 million in 1996.

The largest category of net charge-offs in 1998 was other revolving credit and monthly payment loans, comprising 52% of the total net charge-offs. This product category includes approximately \$300 million of losses in Island Finance reflecting a fourth quarter review of its loan portfolio. Results of the portfolio review revealed the recent deterioration of economic conditions in Puerto Rico. These problems were compounded by hurricane damage in the latter part of 1998. In 1997 and 1996 credit card loans comprised the largest category of net charge-offs, accounting for approximately 40% of total net charge-offs. During 1998, credit card gross charge-offs due to bankruptcies were \$214 million, or 40%, of total credit card charge-offs, compared with \$244 million, or 42%, and \$215 million, or 44%, in 1997 and 1996, respectively. In addition, credit card loans 30 to 89 days past due and still accruing totaled \$154 million at December 31, 1998, compared with \$200 million and \$228 million at December 31, 1997 and 1996, respectively.

Any loan that is past due as to principal or interest and that is not both well-secured and in the process of collection is generally charged off (to the extent that it exceeds the fair value of any related collateral) after a predetermined period of time that is based on loan category. Additionally, loans are charged off when

classified as a loss by either internal loan examiners or regulatory examiners.

The Company considers the allowance for loan losses of \$3,134 million adequate to cover losses inherent in loans, commitments to extend credit and standby letters of credit at December 31, 1998. However, no assurance can be given that the Company will not, in any particular period, sustain loan losses that are sizable in relation to the amount reserved, or that subsequent evaluations of the loan portfolio, in light of the factors then prevailing, including economic conditions and the Company's ongoing examination process and that of its regulators, will not require significant increases in the allowance for loan losses. For discussion of the process by which the Company determines the adequacy of the allowance for loan losses, see Note 5 to Financial Statements.

DEPOSITS

Comparative detail of average deposit balances is presented in Table 4. Average core deposits increased 3% in 1998 compared with 1997. Average core deposits funded 66% of the Company's average total assets in 1998 and 1997.

Year-end deposit balances are presented in Table 10.

TABLE 10: DEPOSITS

(in millions)	December 31,		% Change
	1998	1997	
Noninterest-bearing	\$ 46,732	\$ 40,206	16%
Interest-bearing checking	2,402	2,759	(13)
Market rate and other savings	55,658	51,038	9
Savings certificates	<u>27,497</u>	<u>28,324</u>	(3)
Core deposits	132,289	122,327	8
Other time deposits	3,753	3,927	(4)
Deposits in foreign offices	<u>746</u>	<u>1,402</u>	(47)
Total deposits	<u>\$136,788</u>	<u>\$127,656</u>	<u>7%</u>

MARKET RISKS

Market risk is the exposure to loss resulting from changes in interest rates, foreign currency exchange rates, commodity prices and equity prices. The primary market risk to which the Company is exposed is interest rate risk. The majority of the Company's interest rate risk arises from the instruments, positions and transactions entered into for purposes other than trading. They include loans, securities available for sale, deposit liabilities, short-term borrowings, long-term debt and derivative financial instruments used for asset/liability management. Interest rate risk occurs when assets and liabilities reprice at different times as interest rates change. For example, if fixed-rate assets are funded with floating-rate debt, the spread between asset and liability

rates will decline or turn negative if rates increase. The Company refers to this type of risk as “term structure risk.” There is, however, another source of interest rate risk which results from changing spreads between asset and liability rates. The Company calls this type of risk “basis risk;” it is a significant source of interest rate risk for the Company and is more difficult to quantify and manage than term structure risk. Two primary components of basis risk for the Company are the spread between Prime-based loans and market rate account (MRA) savings deposits and the rate paid on savings and interest-bearing checking accounts as compared to LIBOR-based loans.

Interest rate risk is managed within an overall asset/liability framework for the Company. The principal objectives of asset/liability management are to manage the sensitivity of net interest spreads and net income to potential changes in interest rates and to enhance profitability in ways that promise sufficient reward for understood and controlled risk. Funding positions are kept within predetermined limits designed to ensure that risk-taking is not excessive and that liquidity is properly managed. The Company employs a sensitivity analysis in the form of a net interest income simulation to help characterize the market risk arising from changes in interest rates in the other-than-trading portfolio.

The Company’s net interest income simulation includes all other-than-trading financial assets, financial liabilities, derivative financial instruments and leases where the Company is the lessor. It captures the dynamic nature of the balance sheet by anticipating probable balance sheet and off-balance sheet strategies and volumes under different interest rate scenarios over the course of a one-year period. This simulation measures both the term structure risk and the basis risk in the Company’s positions. The simulation also captures the option characteristics of products, such as caps and floors on floating rate loans, the right to prepay mortgage loans without penalty and the ability of customers to withdraw deposits on demand. These options are modeled directly in the simulation either through the use of option pricing models, in the case of caps and floors on loans, or through statistical analysis of historical customer behavior, in the case of mortgage loan prepayments or non-maturity deposits.

The simulation model is used to measure the impact on after-tax net income, relative to a base case scenario, of rates increasing or decreasing 100 basis points over the next 12 months. The simulation showing the largest drop in net income relative to the base case scenario over the next twelve months is a 100 basis point increase in rates which will result in a decrease in net income of \$26 million. In the simulation which was run at December 31, 1997, the largest drop in net income relative to the base case scenario over the next twelve months was a 100 basis point decrease in rates which would result in a decrease in net income of \$17 million.

The Company uses interest rate derivative financial instruments as an asset/liability management tool to hedge mismatches in interest rate exposures indicated by the net interest income simulation described above. They are used to reduce the Company’s exposure to interest rate fluctuations and provide more stable spreads between loan yields and the rates on their funding sources. For example, the Company uses interest rate futures to shorten the rate maturity of MRA savings deposits to better match the maturity of Prime-based loans. The Company also purchases interest rate floors to protect against the loss in interest income on LIBOR-based loans during a declining interest rate environment. Additionally, receive-fixed rate swaps are used to convert floating-rate loans into fixed rates to better match the liabilities that fund the loans. The Company also uses derivatives including floors, futures contracts and options on futures contracts to hedge the Company’s mortgage servicing rights.

Looking toward managing interest rate risk in 1999, the Company will continue to face term structure risk and basis risk and may be confronted with several risk scenarios. If interest rates rise, net income may actually increase if deposit rates lag increases in market rates (e.g., Prime, LIBOR). The Company could, however, experience pressure on net income in this scenario if deposits are aggressively repriced as market rates increase.

A declining interest rate environment might result in a decrease in loan rates, while deposit rates remain relatively stable, as they did between 1994 and 1996. This rate scenario could also create significant risk to net income. The Company has partially hedged against this risk with interest rate floors, receive-fixed rate swap contracts and fixed-rate mortgage backed securities. As mentioned above, the Company has also partially hedged the mortgage servicing rights against this rate scenario using primarily floors, futures contracts and options on futures contracts. Based on its current and projected balance sheet, the Company does not expect that a change in interest rates would affect its liquidity position.

The Company considers the fair values and the potential near term losses to future earnings related to its customer accommodation derivative financial instruments to be immaterial.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses interest rate derivative financial instruments as asset/liability management tools to hedge the Company’s exposure to interest rate fluctuations. The Company also offers contracts to its customers, but offsets such contracts by purchasing other financial contracts or uses the contracts for asset/liability management. For further discussion of derivative financial instruments, refer to Note 23 to Financial Statements.

LIQUIDITY AND CAPITAL MANAGEMENT

The Company manages its liquidity and capital at both the parent and subsidiary levels.

In addition to the immediately liquid resources of cash and due from banks and federal funds sold and securities purchased under resale agreements, asset liquidity is provided by the Company's securities available for sale portfolio. The weighted average expected remaining maturity of the debt securities within this portfolio was 4 years and 9 months at December 31, 1998. Of the \$31.2 billion debt securities in this portfolio at December 31, 1998, \$8.2 billion, or 26%, is expected to mature or be prepaid in 1999 and an additional \$4.6 billion, or 16%, is expected to mature or be prepaid in 2000. Asset liquidity is further enhanced by the Company's ability to securitize assets such as mortgage loans.

Core deposits have historically provided the Company with a sizeable source of relatively stable and low-cost funds. The Company's average core deposits and stockholders' equity funded 76% and 77% of its average total assets in 1998 and 1997, respectively.

The remaining funding of average total assets was mostly provided by long-term debt, deposits in foreign offices, short-term borrowings (federal funds purchased and securities sold under repurchase agreements, commercial paper and other short-term borrowings) and trust preferred securities. Short-term borrowings averaged \$14.5 billion and \$11.4 billion in 1998 and 1997, respectively. Long-term debt averaged \$17.4 billion and \$17.1 billion in 1998 and 1997, respectively. Trust preferred securities averaged \$1.0 billion and \$1.3 billion in 1998 and 1997, respectively.

Liquidity for the Parent is provided by dividend and interest income from its subsidiaries, potential disposition of readily marketable assets and through its ability to raise funds in a variety of domestic and international money and capital markets. In 1996, the

Company filed a universal registration statement with the Securities and Exchange Commission (SEC) that allows for the issuance of \$5 billion of domestic debt and equity securities, excluding common stock. In 1996, the Parent established a \$2 billion Euro Medium-Term Note program (Euro MTN). The proceeds from the sale of any securities are expected to be used for general corporate purposes. As of December 31, 1998, the Company had issued \$1.7 billion of domestic securities under the universal registration statement and \$300 million under the Euro MTN program.

To accommodate future growth and current business needs, the Company has a capital expenditure program. Capital expenditures for 1999 are estimated at about \$470 million for equipment for stores, relocation and remodeling of Company facilities and routine replacement of furniture and equipment. The Company will fund these expenditures from various sources, including retained earnings of the Company and borrowings of various maturities.

The Company and each of the subsidiary banks are subject to various regulatory capital adequacy requirements administered by the Federal Reserve Board and the Office of the Comptroller of the Currency. RBC guidelines establish a risk-adjusted ratio relating capital to different categories of assets and off-balance sheet exposures. (See Note 22 to Financial Statements for additional information.)

Since 1986, the Company has repurchased common stock in the open market in a systematic pattern to meet the common stock issuance requirements of the Company's benefit plans and other common stock issuance requirements, including acquisitions accounted for as purchases. As of December 31, 1998, the total common stock purchase authority was approximately 3.1 million shares. In January of 1999, the Board of Directors authorized the repurchase of up to 8 million additional shares of the Company's outstanding common stock.

comparison of 1997 to 1996

On April 1, 1996, the Company completed its acquisition of First Interstate, which was accounted for as a purchase business combination. As a result, the financial information presented in this Annual Report reflects the effects of the acquisition subsequent to the consummation date (i.e., the year 1997 reflects twelve months of combined operations, compared with nine months for the year 1996). Since the Company's results of operations subsequent to April 1, 1996 reflect amounts recognized from the combined operations, they cannot be divided between or attributed directly to either of the two former entities nor can they be directly compared with prior periods.

Net interest income increased \$426 million in 1997 compared to 1996. The increase in net interest income was due to an increase in earning assets.

Net income in 1997 was \$2,499 million, compared with \$2,228 million in 1996, an increase of 12%. Diluted earnings per common share were \$1.48 in 1997, compared with \$1.36 in 1996, an increase of 9%. Return on average assets (ROA) was 1.37% and return on average common equity (ROE) was 12.81% in 1997, compared with 1.31% and 12.73%, respectively, in 1996.

Diluted earnings before the amortization of goodwill and nonqualifying core deposit intangible (CDI) ("cash" or "tangible" earnings) were \$1.83 per share in 1997, compared with \$1.67 in 1996. On the same basis, ROA was 1.78% and ROE was 30.49% in 1997, compared with 1.66% and 28.55%, respectively, in 1996.

Net interest income on a taxable-equivalent basis was \$8,705 million in 1997, compared with \$8,265 million in 1996. The Company's net interest margin was 5.86% for 1997, compared with 5.87% in 1996.

Noninterest income in 1997 was \$5,675 million, compared with \$4,769 million in 1996, an increase of 19%. The increases in noninterest income were due to increases in fee-based revenues, including trust and investment fees, credit card fees, other fees and commissions and increased earnings for Mortgage Banking. The increases for Mortgage Banking were principally due to increases in mortgage loan funding and the servicing portfolio. These increases were partially offset by higher levels of amortization in 1997 compared to 1996, which reflected increased balances of capitalized servicing associated with a larger servicing portfolio and increased assumed prepayments due to a lower interest rate environment.

Noninterest expense in 1997 was \$8,990 million, compared with \$8,724 million in 1996. The largest of the increases were in salaries and operating losses. The

increase in salaries was due to increased staff levels due to acquisitions. The increase in operating losses was predominantly a result of back-office problems which arose subsequent to certain systems conversions and other changes to operating processes that were a part of the First Interstate integration.

There was a provision for loan losses of \$1,140 million in 1997, compared with \$500 million in 1996. Of these amounts, the former Wells Fargo provided \$615 million for loan losses in 1997 and \$105 million in 1996. Throughout this period the Company considered its allowance for loan losses adequate in relation to its existing loan portfolio, which had gradually improved in credit quality following the economic environment of 1991 and 1992. Net charge-offs in 1997 were \$1,305 million, or 1.25% of average total loans, compared with \$1,022 million, or 1.04%, in 1996. The allowance for loan losses was 2.88% of total loans at December 31, 1997, compared with 2.89% at December 31, 1996.

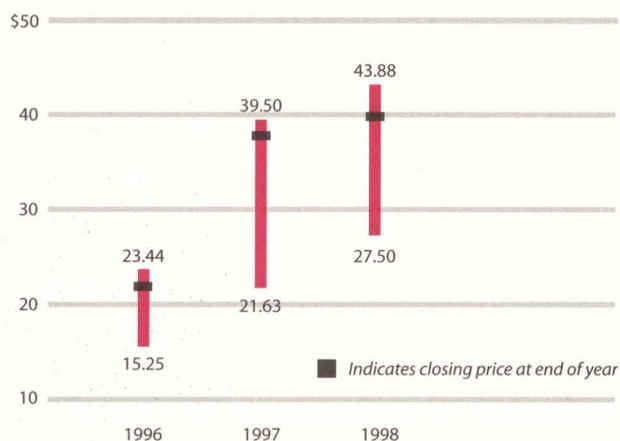
Total nonaccrual and restructured loans were \$715 million, or .7% of total loans, at December 31, 1997, compared with \$881 million, or .8% of total loans, at December 31, 1996. ORE was \$264 million at December 31, 1997, compared with \$308 million at December 31, 1996.

additional information

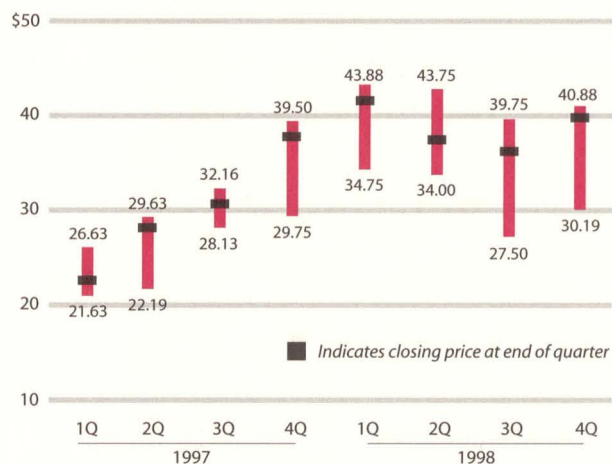
Common stock of the Company is traded on the New York Stock Exchange and the Chicago Stock Exchange. The high, low and end-of-period annual and quarterly closing prices of the Company's common stock as

reported on the New York Stock Exchange Composite Transaction Reporting System are presented in the graphs. The number of holders of record of the Company's common stock was 88,275 as of January 31, 1999.

PRICE RANGE OF COMMON STOCK-ANNUAL (\$)



PRICE RANGE OF COMMON STOCK-QUARTERLY (\$)



WELLS FARGO & COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME

(in millions, except per share amounts)

	Year ended December 31,		
	1998	1997	1996
INTEREST INCOME			
Securities available for sale	\$ 1,844	\$ 2,063	\$ 1,950
Mortgages held for sale	898	490	529
Loans held for sale	371	312	328
Loans	10,685	10,539	9,854
Other interest income	257	198	180
Total interest income	<u>14,055</u>	<u>13,602</u>	<u>12,841</u>
INTEREST EXPENSE			
Deposits	3,111	3,150	2,911
Short-term borrowings	777	610	562
Long-term debt	1,097	1,093	1,140
Guaranteed preferred beneficial interests in Company's subordinated debentures	80	101	6
Total interest expense	<u>5,065</u>	<u>4,954</u>	<u>4,619</u>
NET INTEREST INCOME	<u>8,990</u>	<u>8,648</u>	<u>8,222</u>
Provision for loan losses	<u>1,545</u>	<u>1,140</u>	<u>500</u>
Net interest income after provision for loan losses	<u>7,445</u>	<u>7,508</u>	<u>7,722</u>
NONINTEREST INCOME			
Service charges on deposit accounts	1,357	1,244	1,198
Trust and investment fees and commissions	1,068	954	775
Credit card fee revenue	520	448	350
Other fees and commissions	946	826	689
Mortgage banking	1,106	927	844
Insurance	348	336	280
Net venture capital gains	113	191	256
Net gains on securities available for sale	169	99	12
Other	800	650	365
Total noninterest income	<u>6,427</u>	<u>5,675</u>	<u>4,769</u>
NONINTEREST EXPENSE			
Salaries and benefits	4,416	3,811	3,624
Equipment	900	739	724
Net occupancy	764	719	688
Goodwill	421	433	339
Core deposit intangible	243	273	265
Net losses on dispositions of premises and equipment	325	76	45
Operating losses	152	374	189
Other	3,358	2,565	2,850
Total noninterest expense	<u>10,579</u>	<u>8,990</u>	<u>8,724</u>
INCOME BEFORE INCOME TAX EXPENSE	<u>3,293</u>	<u>4,193</u>	<u>3,767</u>
Income tax expense	<u>1,343</u>	<u>1,694</u>	<u>1,539</u>
NET INCOME	<u>\$ 1,950</u>	<u>\$ 2,499</u>	<u>\$ 2,228</u>
NET INCOME APPLICABLE TO COMMON STOCK	<u>\$ 1,915</u>	<u>\$ 2,456</u>	<u>\$ 2,143</u>
EARNINGS PER COMMON SHARE	<u>\$ 1.18</u>	<u>\$ 1.50</u>	<u>\$ 1.38</u>
DILUTED EARNINGS PER COMMON SHARE	<u>\$ 1.17</u>	<u>\$ 1.48</u>	<u>\$ 1.36</u>
DIVIDENDS DECLARED PER COMMON SHARE	<u>\$.70</u>	<u>\$.615</u>	<u>\$.525</u>
Average common shares outstanding	<u>1,621.5</u>	<u>1,634.6</u>	<u>1,553.3</u>
Diluted average common shares outstanding	<u>1,641.8</u>	<u>1,657.8</u>	<u>1,570.5</u>

The accompanying notes are an integral part of these statements.

WELLS FARGO & COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

(in millions, except shares)

	December 31,	
	1998	1997
ASSETS		
Cash and due from banks	\$ 12,731	\$ 13,081
Federal funds sold and securities purchased under resale agreements	1,517	1,049
Securities available for sale	31,997	27,872
Mortgages held for sale	19,770	9,706
Loans held for sale	5,322	4,494
Loans	107,994	106,311
Allowance for loan losses	3,134	3,062
Net loans	104,860	103,249
Mortgage servicing rights	3,080	3,048
Premises and equipment, net	3,130	3,311
Core deposit intangible	1,510	1,737
Goodwill	7,664	8,062
Interest receivable and other assets	10,894	10,076
Total assets	<u>\$202,475</u>	<u>\$185,685</u>
LIABILITIES		
Noninterest-bearing deposits	\$ 46,732	\$ 40,206
Interest-bearing deposits	90,056	87,450
Total deposits	136,788	127,656
Short-term borrowings	15,897	13,381
Accrued expenses and other liabilities	8,537	6,236
Long-term debt	19,709	17,335
Guaranteed preferred beneficial interests in Company's subordinated debentures	785	1,299
STOCKHOLDERS' EQUITY		
Preferred stock	547	543
Unearned ESOP shares	(84)	(80)
Total preferred stock	463	463
Common stock—\$1½ par value, authorized 4,000,000,000 shares; issued 1,661,392,590 shares and 1,630,640,939 shares	2,769	2,718
Additional paid-in capital	8,673	8,126
Retained earnings	9,045	8,292
Cumulative other comprehensive income	463	464
Notes receivable from ESOP	(3)	(10)
Treasury stock — 17,334,787 shares and 10,493,685 shares	(651)	(275)
Total stockholders' equity	20,759	19,778
Total liabilities and stockholders' equity	<u>\$202,475</u>	<u>\$185,685</u>

The accompanying notes are an integral part of these statements.

WELLS FARGO & COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(in millions, except shares)

	Number of shares	Preferred stock	Unearned ESOP shares	Common stock	Additional paid-in capital	Retained earnings	Notes receivable from ESOP	Treasury stock	Cumulative other comprehensive income	Total stock- holders' equity
BALANCE DECEMBER 31, 1995		<u>\$830</u>	<u>\$ (39)</u>	<u>\$1,381</u>	<u>\$ 1,321</u>	<u>\$5,542</u>	<u>\$ (13)</u>	<u>\$ (126)</u>	<u>\$ 343</u>	<u>\$ 9,239</u>
Comprehensive income										
Net income-1996						2,228				2,228
Other comprehensive income, net of tax:										
Translation adjustments									(1)	(1)
Unrealized gains (losses) on securities available for sale arising during the year									(19)	(19)
Reclassification adjustment for (gains) losses on securities available for sale included in net income									(7)	(7)
Total comprehensive income										2,201
Common stock issued	15,490,268			13	164	(71)		116		222
Preferred stock issued for acquisitions	1,750,000	350			10					360
Common stock issued for acquisitions	560,380,462			895	10,580	72	(2)	99		11,644
Preferred stock issued, net of issuance costs	4,000,000	200			(3)					197
Preferred stock repurchased	1,127,125	(552)								(552)
Common stock repurchased	101,936,842			(140)	(2,018)			(355)		(2,513)
Preferred stock issued to ESOP	59,000	59	(61)		2					—
Preferred stock released to ESOP			39		(1)					38
Preferred stock (37,777) converted to common shares	1,970,310	(37)			4			33		—
Preferred stock dividends						(85)				(85)
Common stock dividends						(815)				(815)
Fair value adjustment related to acquiree's options					111					111
Cash payments received on notes receivable from ESOP							4			4
Net change		<u>20</u>	<u>(22)</u>	<u>768</u>	<u>8,849</u>	<u>1,329</u>	<u>2</u>	<u>(107)</u>	<u>(27)</u>	<u>10,812</u>
BALANCE DECEMBER 31, 1996		<u>850</u>	<u>(61)</u>	<u>2,149</u>	<u>10,170</u>	<u>6,871</u>	<u>(11)</u>	<u>(233)</u>	<u>316</u>	<u>20,051</u>
Comprehensive income										
Net income-1997						2,499				2,499
Other comprehensive income, net of tax:										
Translation adjustments									1	1
Unrealized gains (losses) on securities available for sale arising during the year									206	206
Reclassification adjustment for (gains) losses on securities available for sale included in net income									(59)	(59)
Total comprehensive income										2,647
Common stock issued	18,793,327			10	155	(151)		282		296
Common stock issued for acquisitions	23,835,535			21	20	41		131		213
Preferred stock repurchased	1,100,000	(325)								(325)
Common stock repurchased	74,627,681			(97)	(1,591)			(483)		(2,171)
Preferred stock issued to ESOP	51,700	52	(54)		2					—
Preferred stock released to ESOP			35		(1)					34
Preferred stock (34,074) converted to common shares	1,212,871	(34)			6			28		—
Preferred stock dividends						(43)				(43)
Common stock dividends						(925)				(925)
Cash payments received on notes receivable from ESOP							1			1
Stock split				635	(635)					—
Net change		<u>(307)</u>	<u>(19)</u>	<u>569</u>	<u>(2,044)</u>	<u>1,421</u>	<u>1</u>	<u>(42)</u>	<u>148</u>	<u>(273)</u>
BALANCE DECEMBER 31, 1997		<u>543</u>	<u>(80)</u>	<u>2,718</u>	<u>8,126</u>	<u>8,292</u>	<u>(10)</u>	<u>(275)</u>	<u>464</u>	<u>19,778</u>
Comprehensive income										
Net income-1998						1,950				1,950
Other comprehensive income, net of tax:										
Translation adjustments									(4)	(4)
Unrealized gains (losses) on securities available for sale arising during the year									104	104
Reclassification adjustment for (gains) losses on securities available for sale included in net income									(101)	(101)
Total comprehensive income										1,949
Common stock issued	39,048,384			49	910	(191)		319		1,087
Common stock issued for acquisitions	16,743,233			24	38	11		84		157
Common stock repurchased	32,676,277			(22)	(407)			(741)		(1,170)
Preferred stock issued to ESOP		35	(37)		2					—
Preferred stock released to ESOP			33		(1)					32
Preferred stock (31,043) converted to common shares	799,216	(31)			3			28		—
Preferred stock dividends						(35)				(35)
Common stock dividends						(982)				(982)
Cash payments received on notes receivable from ESOP					2		7			9
Rabbi trust asset classified as treasury stock								(66)		(66)
Net change		<u>4</u>	<u>(4)</u>	<u>51</u>	<u>547</u>	<u>753</u>	<u>7</u>	<u>(376)</u>	<u>(1)</u>	<u>981</u>
BALANCE DECEMBER 31, 1998		<u>\$547</u>	<u>\$ (84)</u>	<u>\$2,769</u>	<u>\$ 8,673</u>	<u>\$9,045</u>	<u>\$ (3)</u>	<u>\$ (651)</u>	<u>\$ 463</u>	<u>\$20,759</u>

The accompanying notes are an integral part of these statements.

WELLS FARGO & COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions)	Year ended December 31,		
	1998	1997	1996
Cash flows from operating activities:			
Net income	\$ 1,950	\$ 2,499	\$ 2,228
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	1,545	1,140	500
Depreciation and amortization	1,205	1,734	1,458
Securities available for sale gains	(169)	(99)	(12)
Gains on sales of loans	(61)	(30)	(22)
(Gains) losses from disposition of operations	(100)	(15)	95
Release of preferred shares to ESOP	32	34	38
Net (increase) decrease in trading assets	542	(711)	(440)
Deferred income tax expense (benefit)	(129)	173	467
Net (increase) decrease in accrued interest receivable	(5)	96	(75)
Net (decrease) increase in accrued interest payable	(9)	43	37
Originations of mortgages held for sale	(111,262)	(56,297)	(53,088)
Proceeds from sales of mortgages held for sale	101,371	53,252	55,920
Net (increase) decrease in loans held for sale	(822)	(846)	673
Other, net	752	978	(3,634)
Net cash provided (used) by operating activities	(5,160)	1,951	4,145
Cash flows from investing activities:			
Securities available for sale:			
Proceeds from sales	11,073	9,798	5,905
Proceeds from prepayments and maturities	10,354	6,998	7,853
Purchases	(24,650)	(13,140)	(10,100)
Net cash (paid for) acquired from acquisitions	(286)	(67)	3,561
Net (increase) decrease in banking subsidiaries' loans resulting from originations and collections	(1,383)	843	4,053
Proceeds from sales (including participations) of banking subsidiaries' loans	1,648	437	364
Purchases (including participations) of banking subsidiaries' loans	(135)	(314)	(133)
Principal collected on nonbank subsidiaries' loans	7,788	8,456	5,503
Nonbank subsidiaries' loans originated	(8,962)	(8,748)	(6,950)
Proceeds from (cash paid for) disposition of operations	484	16	6
Proceeds from sales of other real estate (ORE)	279	278	200
Net (increase) decrease in federal funds sold and securities purchased under resale agreements	(468)	415	1,385
Other, net	(2,776)	(320)	(929)
Net cash provided (used) by investing activities	(7,034)	4,652	10,718
Cash flows from financing activities:			
Net increase (decrease) in deposits	6,749	(7,273)	(2,198)
Net increase (decrease) in short-term borrowings	2,414	2,838	(1,970)
Proceeds from issuance of long-term debt	7,970	4,003	6,403
Repayment of long-term debt	(5,642)	(5,394)	(6,293)
Proceeds from issuance of guaranteed preferred beneficial interests in Company's subordinated debentures	—	149	1,150
Proceeds from issuance of preferred stock	—	—	197
Proceeds from issuance of common stock	1,087	238	199
Repurchases of preferred stock	—	(325)	(552)
Repurchases of common stock	(1,170)	(2,171)	(2,513)
Net decrease in notes receivable from ESOP	9	1	4
Payment of cash dividends on preferred and common stock	(1,017)	(968)	(900)
Other, net	1,444	(1,213)	508
Net cash provided (used) by financing activities	11,844	(10,115)	(5,965)
Net change in cash and due from banks	(350)	(3,512)	8,898
Cash and due from banks at beginning of year	13,081	16,593	7,695
Cash and due from banks at end of year	\$ 12,731	\$13,081	\$16,593
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$ 5,074	\$ 4,911	\$ 4,582
Income taxes	\$ 1,289	\$ 1,238	\$ 684
Noncash investing and financing activities:			
Transfers from loans to ORE	\$ 223	\$ 162	\$ 192

The accompanying notes are an integral part of these statements.

Note 1

Summary of Significant Accounting Policies

Wells Fargo & Company (Parent) is a bank holding company. Wells Fargo & Company and Subsidiaries (Company) is a diversified financial services company providing banking, mortgage and consumer finance through about 6,000 stores and other distribution channels throughout North America, including all 50 states and elsewhere internationally.

The accounting and reporting policies of the Company conform with generally accepted accounting principles (GAAP) and prevailing practices within the financial services industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and income and expenses during the reporting period. Actual results could differ from those estimates.

On November 2, 1998, Norwest Corporation changed its name to "Wells Fargo & Company" upon the merger (the Merger) of the former Wells Fargo & Company (the former Wells Fargo) into a wholly-owned subsidiary of Norwest Corporation. The Merger was accounted for as a pooling of interests and, accordingly, the information included in the financial statements presents the combined results as if the Merger had been in effect for all periods presented. Certain amounts in the financial statements for prior years have been reclassified to conform with the current financial statement presentation. The following is a description of the significant accounting policies of the Company.

CONSOLIDATION

The consolidated financial statements of the Company include the accounts of the Parent, and its majority-owned subsidiaries, which are consolidated on a line-by-line basis. Significant intercompany accounts and transactions are eliminated in consolidation. Other subsidiaries and affiliates in which there is at least 20% ownership are generally accounted for by the equity method; those in which there is less than 20% ownership are generally carried at cost. Investments that are accounted for by either the equity or cost method are included in other assets.

SECURITIES

Securities are accounted for according to their purpose and holding period.

Securities available for sale Debt securities that may not be held until maturity and marketable equity securities are classified as securities available for sale and are reported at fair value, with unrealized gains and losses, after applicable taxes, reported as a component of cumulative other comprehensive income. The estimated fair value of a security is determined based on current quotations, where available. Where current quotations are not available, the estimated fair value is determined based primarily on the present value of future cash flows, adjusted for the quality rating of the securities, prepayment assumptions and other factors. Declines in the value of debt securities and marketable equity securities that are considered other than temporary are recorded in noninterest income as a loss on securities available for sale. Realized gains and losses are recorded in noninterest income using the identified certificate method. For certain debt securities (for example, Government National Mortgage Association securities), the Company anticipates prepayments of principal in the calculation of the effective yield.

Trading securities Securities acquired for short-term appreciation or other trading purposes are recorded in a trading portfolio and are carried at fair value, with unrealized gains and losses recorded in noninterest income.

Nonmarketable equity securities Nonmarketable equity securities include the venture capital subsidiaries' equity securities that are not publicly traded and securities acquired for various purposes, such as troubled debt restructurings and as a regulatory requirement (for example, Federal Reserve Bank stock). These securities are accounted for at cost. The asset value is reduced when declines in value are considered to be other than temporary and the estimated loss is recorded in noninterest income as a loss from equity investments along with income recognized on these assets.

MORTGAGES HELD FOR SALE

Mortgages held for sale are stated at the lower of aggregate cost or market value. The determination of market value includes consideration of all open positions, outstanding commitments from investors, related fees paid and related hedging gains and losses. Gains and losses on sales of mortgages are recognized at settlement dates and are determined by the difference between sales proceeds and the carrying value of the mortgages. Gains and losses are recorded in noninterest income.

LOANS HELD FOR SALE

Loans held for sale include student loans which are classified as held for sale because the Company does not intend to hold these loans until maturity or sales of the loans are pending. Such loans are carried at the lower of aggregate cost or market value. Gains and losses are recorded in noninterest income, based on the difference between sales proceeds and carrying value.

LOANS

Loans are reported at the principal amount outstanding, net of unearned income. Unearned income, which includes deferred fees net of deferred direct incremental loan origination costs, is amortized to interest income generally over the contractual life of the loan using an interest method or the straight-line method if it is not materially different.

Nonaccrual loans Generally, loans are placed on nonaccrual status upon becoming 90 days past due as to interest or principal (unless both well-secured and in the process of collection), when the full timely collection of interest or principal becomes uncertain or when a portion of the principal balance has been charged off. Real estate 1-4 family loans (both first liens and junior liens) are placed on nonaccrual status within 120 days of becoming past due as to interest or principal, regardless of security. Generally, consumer loans not secured by real estate are placed on nonaccrual status only when a portion of the principal has been charged off. Such loans are entirely charged off when deemed uncollectible or when they reach a predetermined number of days past due depending upon loan product, country, terms and other factors.

When a loan is placed on nonaccrual status, the accrued and unpaid interest receivable is reversed and the loan is accounted for on the cash or cost recovery method thereafter, until qualifying for return to accrual status. Generally, a loan may be returned to accrual status when all delinquent interest and principal become current in accordance with the terms of the loan agreement or when the loan is both well-secured and in the process of collection and collectibility is no longer doubtful.

Impaired loans Loans, other than those included in large groups of smaller-balance homogeneous loans, are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest payments. For a loan that has been restructured, the contractual terms of the loan agreement refer to the contractual terms specified by the original loan agreement, not the contractual terms specified by the restructuring agreement.

This assessment for impairment occurs when and while such loans are on nonaccrual, or the loan has been restructured. When a loan with unique risk characteristics has been identified as being impaired, the amount of impairment will be measured by the Company using discounted cash flows, except when it is determined that the sole (remaining) source of repayment for the loan is the operation or liquidation of the underlying collateral. In such cases, the current fair value of the collateral, reduced by costs to sell, will be used in place of discounted cash flows. Additionally, some impaired loans with commitments of less than \$1 million are aggregated for the purpose of measuring impairment using historical loss factors as a means of measurement.

If the measurement of the impaired loan is less than the recorded investment in the loan (including accrued interest, net deferred loan fees or costs and unamortized premium or discount), an impairment is recognized by creating or adjusting an existing allocation of the allowance for loan losses.

Restructured loans In cases where a borrower experiences financial difficulties and the Company makes certain concessionary modifications to contractual terms, the loan is classified as a restructured (accruing) loan. Loans restructured at a rate equal to or greater than that of a new loan with comparable risk at the time the contract is modified may be excluded from the impairment assessment and may cease to be considered impaired loans in the calendar years subsequent to the restructuring if they are not impaired based on the modified terms.

Generally, a nonaccrual loan that is restructured remains on nonaccrual for a period of six months to demonstrate that the borrower can meet the restructured terms. However, performance prior to the restructuring, or significant events that coincide with the restructuring, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual at the time of restructuring or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains classified as a nonaccrual loan.

Allowance for loan losses The allowance for loan losses is a valuation allowance for probable losses inherent in the portfolio as of the balance sheet date. The Company's determination of the level of the allowance for loan losses rests upon various judgments and assumptions, including general economic conditions, loan portfolio composition, prior loan loss experience, evaluation of credit risk related to certain individual borrowers and the Company's ongoing examination process and that of its regulators. The Company considers the allowance for loan losses adequate to cover losses inherent in loans, loan commitments and standby letters of credit.

TRANSFERS AND SERVICING OF FINANCIAL ASSETS

A transfer of financial assets is accounted for as a sale when control is surrendered over the assets transferred. Servicing rights and other retained interests in the assets sold are recorded by allocating the previous recorded investment between the asset sold and the interest retained based on their relative fair values, if practicable to determine, at the date of transfer.

The Company recognizes as separate assets the rights to service mortgage loans for others, whether the servicing rights are acquired through purchases or retained upon sales of loan originations. For purposes of evaluating and measuring impairment of mortgage servicing rights, the Company stratifies its portfolio on the basis of certain risk characteristics including loan type and note rate. Based upon current fair values and considering outstanding positions of derivative financial instruments used as hedges, mortgage servicing rights are periodically assessed for impairment. Impairment is recognized in the statement of income during the period in which impairment occurs as an adjustment to the corresponding valuation allowance. Mortgage servicing rights are amortized over the period of estimated net servicing income and take into account appropriate prepayment assumptions.

PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation and amortization. Capital leases are included in premises and equipment, at the capitalized amount less accumulated amortization.

Depreciation and amortization are computed primarily using the straight-line method. Estimated useful lives range up to 40 years for buildings, 2 to 10 years for furniture and equipment, and up to the lease term for leasehold improvements. Capitalized leased assets are amortized on a straight-line basis over the lives of the respective leases, which generally range from 20 to 35 years.

GOODWILL AND IDENTIFIABLE INTANGIBLE ASSETS

Goodwill, representing the excess of purchase price over the fair value of net assets acquired, results from acquisitions made by the Company. Substantially all of the Company's goodwill is being amortized using the straight-line method over 25 years. Core deposit intangibles are amortized on an accelerated basis based on an estimated useful life of 10 to 15 years. Certain identifiable intangible assets that are included in other assets are generally amortized using an accelerated method over an original life of 5 to 15 years.

The Company reviews its intangible assets periodically for other-than-temporary impairment. If such impairment is indicated, recoverability of the asset is assessed based on expected undiscounted net cash flows.

INCOME TAXES

The Company files a consolidated federal income tax return. Federal income tax is generally allocated to individual subsidiaries as if each had filed a separate return. Combined state tax returns are filed in certain states. State taxes are also allocated to individual subsidiaries.

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. Foreign taxes paid are applied as credits to reduce federal income taxes payable.

EARNINGS PER COMMON SHARE

Earnings per common share are presented under two formats: earnings per common share and diluted earnings per common share. Earnings per common share are computed by dividing net income (after deducting dividends on preferred stock) by the average number of common shares outstanding during the year. Diluted earnings per common share are computed by dividing net income (after deducting dividends on preferred stock) by the average number of common shares outstanding during the year, plus the impact of those common stock equivalents (i.e., stock options, restricted share rights and convertible subordinated debentures) that are dilutive.

DERIVATIVE FINANCIAL INSTRUMENTS

Interest rate derivatives The Company uses interest rate derivative financial instruments (futures contracts, forward contracts, swaps, caps, floors and options) primarily to hedge mismatches in the rate maturity of loans and their funding sources and the price risk of interest-rate sensitive assets. These instruments serve to reduce rather than increase the Company's exposure to movements in interest rates. At the inception of the hedge, the Company identifies an individual asset or liability, or an identifiable group of essentially similar assets or liabilities, that expose the Company to interest rate risk at the consolidated or enterprise level. Interest rate derivatives are accounted for by the deferral or accrual method only if they are designated as a hedge and are expected to be and are effective in substantially reducing the risk arising from the asset or liability identified as exposing the Company to risk. Futures contracts must meet specific high correlation tests. For caps, floors and swaps hedging mismatches between interest-bearing assets and liabilities, their notional amount, interest rate index and life must closely match the related terms of the hedged asset or liability. Caps, floors, swaps and options and the mortgage servicing rights that they hedge must correlate based on certain duration and convexity parameters. For futures contracts, if the underlying financial instrument differs from the hedged asset or liability, there must be a clear economic relationship between the prices of the two financial instruments. If periodic assessment indicates derivatives no longer provide an effective hedge, the derivatives are closed out or settled; previously unrecognized hedge results and the net settlement upon close-out or termination that offset changes in value of the hedged asset or liability are deferred and amortized over the life of the asset or liability with excess amounts recognized in noninterest income or noninterest expense.

Gains and losses on futures contracts, which result from the daily settlement of their open positions, and on forward contracts are deferred and classified on the balance sheet consistent with the hedge strategy. They are recognized in income along with and when the effects of the related changes of the hedged asset or liability are recognized. Amounts payable or receivable for swaps, caps and floors are accrued with the passage of time, the effect of which is included in income along with and when the effects of the related changes of the hedged

asset or liability are recognized. Gains and losses on options are recognized as a component of the income reported on the hedged asset or liability. Fees associated with these financial contracts are included on the balance sheet at the time that the fee is paid and are classified consistent with the hedge strategy. These fees are fully recognized by the end of their contractual life.

If a hedged asset or liability settles before maturity of the hedging interest rate derivatives, the derivatives are closed out or settled, and previously unrecognized hedge results and the net settlement upon close-out or termination are accounted for as part of the gains and losses on the hedged asset or liability. If interest rate derivatives used in an effective hedge are closed out or terminated before the hedged item settles, previously unrecognized hedge results and the net settlement upon close-out or termination are deferred and amortized over the life of the hedged asset or liability. Cash flows resulting from interest rate derivatives (including any related fees) that are accounted for as hedges of assets and liabilities are classified in the cash flow statement in the same category as the cash flows from the items being hedged and are reflected in that statement when the cash receipts or payments due under the terms of the instruments are collected, paid or settled.

Interest rate derivatives entered into as an accommodation to customers, interest rate derivatives used to offset the interest rate risk of those contracts and positions taken based on the Company's market expectations or to benefit from price differentials between financial instruments and markets are carried at fair value with unrealized gains and losses recorded in noninterest income. Losses are recognized currently on put options written when the fair value of the underlying security falls below the contractual price at which the security may be put to the Company plus the premium received. Premiums received on covered call options written are deferred until the option terminates. If the fair value of the underlying asset is greater than the contractual price at which the Company must sell the asset, the option should be exercised, at which time the premium will be recorded as an adjustment of the gain or loss recognized on the underlying asset. If the option expires, the premium is recognized in other noninterest income. The fair value of interest rate derivative financial instruments with an unrealized gain is included in trading assets (i.e., within other assets) while the fair value of instruments with an unrealized loss is included in other liabilities. Cash flows resulting from instruments carried

at fair value are classified in the cash flow statement as operating cash flows and are reflected in that statement when the cash receipts or payments due under the terms of the instruments are collected, paid or settled.

Credit risk related to interest rate derivative financial instruments is considered and, if material, provided for separately from the allowance for loan losses.

Foreign exchange derivatives The Company enters into foreign exchange derivative financial instruments (forward and spot contracts and options) primarily as an accommodation to customers and offsets the related foreign exchange risk with other foreign exchange derivatives. Those contracts are carried at fair value, with unrealized gains and losses recorded in noninterest income. Cash flows resulting from foreign exchange derivatives are classified in the cash flow statement as operating cash flows and are reflected in that statement when the cash receipts or payments due under the terms of the foreign exchange derivatives are collected, paid or settled.

The Company also uses forward foreign exchange contracts to hedge uncertainties in funding costs related to specific liabilities denominated in foreign currencies. Gains and losses on those contracts are recognized in income and classified on the balance sheet consistent with the hedged item. Cash flows resulting from these foreign exchange derivatives (including any related fees) are classified in the cash flow statement in the same category as the cash flows from the item being hedged and are reflected in that statement when the cash receipts or payments due under the terms of the instruments are collected, paid or settled.

Credit risk related to all foreign exchange derivatives is considered and, if material, provided for separately from the allowance for loan losses.

FOREIGN CURRENCY TRANSLATION

The accounts of the Company's foreign consumer finance subsidiaries are measured using local currency as the functional currency. Assets and liabilities are translated into United States dollars at period-end exchange rates, and income and expense accounts are translated at average monthly exchange rates. Net exchange gains or losses resulting from such translation are excluded from net income and included as a component of cumulative other comprehensive income.

Note 2 Business Combinations

The Company regularly explores opportunities to acquire financial institutions and related businesses. Generally, management of the Company does not make a public announcement about an acquisition opportunity until a definitive agreement is signed. At December 31, 1998, the Company had five pending transactions with total assets of approximately \$1.4 billion and anticipated

that approximately \$200 million in cash and approximately 5.7 million common shares will be issued upon consummation of these transactions. These pending acquisitions, subject to approval by regulatory agencies, are expected to be completed by the end of the second quarter of 1999.

Transactions completed in the years ended December 31, 1998, 1997 and 1996 include:

(in millions, except shares)

1998

	Date	Assets	Cash paid	Common shares issued	Method of accounting
Finvercon S.A. Compania, Financiera, Argentina	January 8	\$ 57	\$ 20	—	Purchase
Fidelity Bancshares, Inc., Fort Worth, Texas	January 13	111	16	—	Purchase
Heritage Trust Company, Grand Junction, Colorado	February 20	2	—	136,950	Purchase
Founders Trust Company, Dallas, Texas	March 2	2	7	—	Purchase
The T. Eaton Acceptance Company Limited and National Retail Credit Services Limited, Don Mills, Ontario, Canada	April 21	370	248	—	Purchase
WMC Mortgage Corporation, Woodland Hills, California	April 30	5	22	—	Purchase
First Bank, Katy, Texas	May 22	310	—	1,999,980	Pooling of interests*
First Bank of Grants, Grants, New Mexico	May 28	45	—	212,487	Purchase
Spring Mountain Escrow Corporation, Irvine, California	May 29	1	1	—	Purchase
Emjay Corporation, Milwaukee, Wisconsin	June 15	6	—	297,979	Purchase
Six affiliated bank holding companies and related entities, located in Minnesota, Wisconsin, New Mexico, Arizona and Colorado, including MidAmerica	July 2, 23	1,317	—	8,060,664	Pooling of interests*
First Bancshares of Valley City, Inc., Valley City, North Dakota	July 31	96	—	451,943	Purchase
Peoples Insurance Agency, Inc., Valley City, North Dakota	July 31	—	—	6,804	Purchase
Star Bancshares, Inc., Austin, Texas	August 31	582	—	4,275,077	Pooling of interests*
Freedom Trailer Leasing, Inc., Chesterfield, Missouri	August 31	5	4	—	Purchase
Little Mountain Bancshares, Inc., Monticello, Minnesota	September 8	82	—	561,016	Purchase
First National Bank of Missouri City, Missouri City, Texas	October 30	91	—	740,333	Purchase
Franklin Bancshares, Inc., Franklin, Texas	December 1	72	12	—	Purchase
		<u>\$3,154</u>	<u>\$330</u>	<u>16,743,233</u>	

1997

Franklin Federal Bancorp., F.S.B., Austin, Texas	January 1	\$ 621	\$ 90	—	Purchase of assets
Central Bancorporation, Inc., Fort Worth, Texas	January 28	1,105	—	9,399,576	Pooling of interests*
Reliable Financial Services, Inc., San Juan, Puerto Rico	February 21	39	—	1,753,086	Pooling of interests*
Statewide Mortgage Company, Birmingham, Alabama	February 26	28	—	1,049,992	Purchase
The United Group, Inc., Charlotte, North Carolina	March 21	41	—	648,348	Purchase
Farmers National Bancorp, Inc., Geneseo, Illinois	March 24	198	—	1,207,198	Purchase
The First National Bankshares, Inc., Tucumcari, New Mexico	June 17	90	—	608,900	Purchase
Tennessee Credit Corporation, Nashville, Tennessee	July 18	13	3	—	Purchase
Western National Trust Company, National Association, Odessa, Texas	July 31	—	1	—	Purchase
Fidelity Acceptance Corporation, St. Louis, Missouri	August 31	1,135	344	—	Purchase
The Bank of the Southwest, National Association, Pagosa Springs, Colorado	September 2	85	—	490,790	Purchase
International Bancorporation, Inc., Golden Valley, Minnesota	October 21	483	—	3,601,935	Pooling of interests*
Subsidiaries of Cityside Holding L.L.C., Eden Prairie, Minnesota	October 30	104	42	—	Purchase
J.L.J. Financial Services Corporation, Montvale, New Jersey	October 31	26	6	—	Purchase
Myers Bancshares Inc., Dallas, Texas	November 14	135	—	613,247	Purchase
Packers Management Company, Inc., Omaha, Nebraska	November 25	162	—	1,171,161	Purchase
First Valley Bank Group, Inc., Los Fresnos, Texas	December 1	519	—	3,291,302	Pooling of interests*
		<u>\$4,784</u>	<u>\$486</u>	<u>23,835,535</u>	

(in millions, except shares)

1996

	Date	Assets	Cash paid	Common shares issued	Method of accounting
The Bank of Robstown, Robstown, Texas	January 12	\$ 71	\$ 9	—	Purchase
AMFED Financial, Inc., Reno, Nevada	January 18	1,519	—	12,093,272	Pooling of interests*
Irene Bancorporation, Inc., Viborg, South Dakota	January 31	40	7	—	Purchase
Canton Bancshares, Inc., Canton, Illinois	February 15	50	—	558,540	Purchase
Henrietta Bancshares, Inc., Henrietta, Texas	March 12	164	24	—	Purchase
First Interstate Bancorp, Los Angeles, California	April 1	55,797	—	520,019,700	Purchase
Victoria Bankshares, Inc., Victoria, Texas	April 11	1,919	—	17,021,602	Pooling of interests*
The Prudential Home Mortgage Company, Inc.	May 7	3,336	3,336	—	Purchase of assets
Cardinal Credit Corporation, Lexington, Kentucky	May 13	34	34	—	Purchase of assets
Benson Financial Corporation, San Antonio, Texas	May 31	464	—	4,088,070	Pooling of interests*
Regional Bank of Colorado, N.A., Rifle, Colorado	June 1	56	—	709,934	Purchase
AmeriGroup, Incorporated, Minneapolis, Minnesota	June 4	155	—	1,832,400	Purchase
Union Texas Bancorporation, Inc., Laredo, Texas	June 27	245	—	789,958	Purchase
B & G Investment Company, San Antonio, Texas	July 3	71	—	541,996	Purchase
PriMerit Bank, F.S.B., Las Vegas, Nevada	July 19	1,578	191	—	Purchase of assets
Aman Collection Service, Inc., Aberdeen, South Dakota	August 2	4	—	1,200,000	Pooling of interests*
Rapid Finance, Inc., Jacksonville, Mississippi	August 16	29	29	—	Purchase of assets
National Business Finance, Inc., Denver, Colorado	September 30	8	7	—	Purchase
American Bank Moorhead, Moorhead, Minnesota	October 1	155	24	—	Purchase
Texas Bancorporation, Inc., Odessa, Texas	November 1	174	—	1,524,990	Purchase
West Columbia National Bank, West Columbia, Texas	December 27	34	5	—	Purchase
		<u>\$65,903</u>	<u>\$3,666</u>	<u>560,380,462</u>	

* Pooling of interests transaction was not material to the Company's consolidated financial statements; accordingly, previously reported results were not restated.

MERGER OF NORWEST AND WELLS FARGO

On November 2, 1998, the former Wells Fargo merged with a subsidiary of Norwest Corporation, and Norwest changed its name to "Wells Fargo & Company." Under the terms of the Merger agreement, stockholders of the former Wells Fargo received 10 shares of common stock of the Company for each share of common stock owned. Each share of former Wells Fargo preferred stock was converted into one share of the Company's preferred stock. These shares will rank on parity with the Company's preferred stock as to dividends and upon liquidation. Each outstanding and unexercised option granted by the former Wells Fargo was converted into an option to purchase common stock of the Company based on the agreed-upon exchange ratio.

As a condition to the Merger, the Company was required by regulatory agencies to divest stores in Arizona and Nevada having aggregate deposits of approximately \$1 billion. In the fourth quarter of 1998, the Company entered into contracts to sell these stores. These sales are expected to be completed during the second quarter of 1999.

Merger-related expenses of approximately \$1 billion that were recognized in the fourth quarter of 1998 included restructuring charges of approximately \$600 million. The following table presents the major components of the restructuring charges:

	Amounts (in millions)	Income statement classification
Severance-related costs	\$280	Salaries and benefits
Premises:		
Owned	100 (1)	
Leased	<u>150</u>	Net losses on dispositions of premises and equipment
Total premises-related costs	250 (2)	
Other	<u>70</u>	Various
Total restructuring charges	<u>\$600</u>	

(1) Carrying value of these assets totaled approximately \$70 million at December 31, 1998.

(2) These premises are held for sale or remarketing and are expected to be removed from operations during 1999, pursuant to Merger plans.

Accrued severance-related costs relate to the elimination into 2000 of about 5% of the Company's positions. The majority of these reductions are the result of eliminating redundant headquarters, back office and other positions.

Previously reported financial information for Norwest and the former Wells Fargo is shown in the table below.

(in millions)	Nine months ended September 30, 1998 (unaudited)	Year ended December 31,	
		1997	1996
Revenue (1)			
Norwest	\$5,913	\$6,996	\$6,266
Wells Fargo	5,623	7,318	6,721
Net Income			
Norwest	\$1,143	\$1,351	\$1,154
Wells Fargo	999	1,155	1,071

(1) Revenue equals net interest income plus noninterest income.

The combined financial results of the Company include adjustments to conform the accounting policies of the former Norwest and the former Wells Fargo. The December 31, 1995 balances of certain balance sheet accounts were adjusted to reflect the conforming accounting treatment. Other liabilities increased \$75 million and retained earnings decreased \$75 million to conform the accounting treatment for the postretirement transition obligation identified with the implementation of FAS 106, Employers' Accounting for Postretirement Benefits Other than Pensions. Premises and equipment decreased \$53 million and retained earnings decreased \$53 million to reflect the conforming of the capitalization policies. In noninterest expense, salaries and benefits decreased \$6 million for the nine months ended September 30, 1998 and \$8 million for the years ended December 31, 1997 and 1996 and equipment expense increased \$2 million for the nine months ended September 30, 1998 and \$18 million and \$3 million for the years ended December 31, 1997 and 1996, respectively. Net income increased \$2 million for the nine months ended September 30, 1998 and (decreased) increased \$(7) million and \$3 million for the years ended December 31, 1997 and 1996, respectively.

Note 3 Cash, Loan and Dividend Restrictions

Federal Reserve Board (FRB) regulations require reserve balances on deposits to be maintained by each of the banking subsidiaries with the Federal Reserve Banks. The average required reserve balance was \$2.2 billion and \$2.3 billion in 1998 and 1997, respectively.

Federal law prevents the Company and its nonbank subsidiaries from borrowing from its subsidiary banks unless the loans are secured by specified collateral. Such secured loans by any subsidiary bank are generally limited to 10% of the subsidiary bank's capital and surplus (as defined, which for this purpose represents Tier 1 and Tier 2 capital, as calculated under the risk-based capital guidelines, plus the balance of the allowance for loan losses excluded from Tier 2 capital) and aggregate loans to the Company and its nonbank subsidiaries are limited to 20% of the subsidiary bank's capital and surplus. (For further discussion of risk-based capital, see Note 22 to Financial Statements.)

The payment of dividends to the Parent by subsidiary banks is subject to various federal and state regulatory limitations. Dividends payable by a national bank to the Parent without the express approval of the Office of the Comptroller of the Currency (OCC) are limited to that bank's retained net profits for the preceding two calendar years plus retained net profits up to the date of any dividend declaration in the current calendar year. Retained

net profits are defined by the OCC as net income, less dividends declared during the period, both of which are based on regulatory accounting principles. The Company also has state-chartered subsidiary banks that are subject to state regulations that limit dividends. Under these provisions and except for Wells Fargo Bank, N.A. (WFB, N.A.), the Company's national and state-chartered subsidiary banks could have declared dividends of \$687 million and \$495 million in 1998 and 1997, respectively, without obtaining prior regulatory approval. With the express approval of the OCC, WFB, N.A. declared dividends in 1998 and 1997 of \$1.5 billion in excess of its net income of \$2.0 billion for those years. (The total dividends declared by WFB, N.A. in 1998, 1997 and 1996 were \$1.5 billion, \$2.0 billion and \$1.5 billion, respectively.) Therefore, before it can declare dividends in 1999 without the approval of the OCC, WFB, N.A. must have net income of \$1.5 billion plus an amount equal to or greater than the dividends declared in 1999. Since it is not expected to have net income of \$1.5 billion plus an amount equal to or greater than the dividends expected to be declared in 1999, WFB, N.A. will again need to obtain the approval of the OCC before any dividends are declared in 1999. In addition, the Company's non-bank subsidiaries could have declared dividends of \$1.2 billion and \$1.0 billion at December 31, 1998 and 1997, respectively.

Note 4

Securities Available for Sale

The following table provides the cost and fair value for the major components of securities available for sale

carried at fair value (there were no securities held to maturity at the end of the last three years):

(in millions)	1998				1997				December 31, 1996	
	Cost	Estimated unrealized gross gains	Estimated unrealized gross losses	Estimated fair value	Cost	Estimated unrealized gross gains	Estimated unrealized gross losses	Estimated fair value	Cost	Estimated fair value
Securities of U.S. Treasury and federal agencies	\$ 3,260	\$ 45	\$18	\$ 3,287	\$ 3,594	\$ 38	\$ 6	\$ 3,626	\$ 3,998	\$ 4,017
Securities of U.S. states and political subdivisions	1,683	115	4	1,794	1,652	76	2	1,726	928	962
Mortgage-backed securities:										
Federal agencies	20,539	293	28	20,804	18,203	369	20	18,552	19,694	19,834
Private collateralized mortgage obligations (1)	<u>3,420</u>	<u>29</u>	<u>9</u>	<u>3,440</u>	<u>2,646</u>	<u>21</u>	<u>13</u>	<u>2,654</u>	<u>3,403</u>	<u>3,403</u>
Total mortgage-backed securities	23,959	322	37	24,244	20,849	390	33	21,206	23,097	23,237
Other	<u>1,879</u>	<u>41</u>	<u>21</u>	<u>1,899</u>	<u>729</u>	<u>18</u>	<u>3</u>	<u>744</u>	<u>844</u>	<u>844</u>
Total debt securities	30,781	523	80	31,224	26,824	522	44	27,302	28,867	29,060
Marketable equity securities	<u>386</u>	<u>396</u>	<u>9</u>	<u>773</u>	<u>308</u>	<u>265</u>	<u>3</u>	<u>570</u>	<u>374</u>	<u>692</u>
Total	<u>\$31,167</u>	<u>\$919</u>	<u>\$89</u>	<u>\$31,997</u>	<u>\$27,132</u>	<u>\$787</u>	<u>\$47</u>	<u>\$27,872</u>	<u>\$29,241</u>	<u>\$29,752</u>

(1) Substantially all private collateralized mortgage obligations are AAA-rated bonds collateralized by 1-4 family residential first mortgages.

At December 31, 1998, the Company held no securities of any single issuer (excluding the U.S. Treasury and federal agencies) with a book value that exceeded 10% of stockholders' equity.

Proceeds from the sale of securities in the securities available for sale portfolio totaled \$11.1 billion, \$9.8 billion and \$5.9 billion in 1998, 1997 and 1996.

For the year ended December 31, 1998, the sales of securities in the securities available for sale portfolio resulted in a realized net gain of \$169 million, comprised of realized gross gains of \$209 million and realized gross losses of \$40 million. The sales of securities in the securities available for sale portfolio resulted in a realized net

gain of \$99 million and \$12 million, comprised of realized gross gains of \$168 million and \$184 million, and realized gross losses of \$69 million and \$172 million for the year ended December 31, 1997 and 1996, respectively.

The following table provides the remaining contractual principal maturities and yields (taxable-equivalent basis) of debt securities available for sale. The remaining contractual principal maturities for mortgage-backed securities were allocated assuming no prepayments. Expected remaining maturities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without penalties.

(in millions)	Total amount	Weighted average yield	December 31, 1998							
			Remaining contractual principal maturity							
			Within one year		After one year through five years		After five years through ten years		After ten years	
			Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Securities of U.S. Treasury and federal agencies	\$ 3,287	5.76%	\$1,241	5.91%	\$1,109	5.93%	\$ 872	5.38%	\$ 65	5.05%
Securities of U.S. states and political subdivisions	1,794	6.54	79	5.58	423	6.58	293	6.94	999	6.49
Mortgage-backed securities:										
Federal agencies	20,804	6.88	454	6.37	1,448	6.62	1,092	6.59	17,810	6.93
Private collateralized mortgage obligations	<u>3,440</u>	6.71	<u>274</u>	6.28	<u>843</u>	6.54	<u>644</u>	7.12	<u>1,679</u>	6.71
Total mortgage-backed securities	24,244	6.86	728	6.34	2,291	6.59	1,736	6.79	19,489	6.91
Other	<u>1,899</u>	7.04	<u>100</u>	6.51	<u>813</u>	5.57	<u>695</u>	8.17	<u>291</u>	7.58
ESTIMATED FAIR VALUE OF DEBT SECURITIES (1)	<u>\$31,224</u>	<u>6.73%</u>	<u>\$2,148</u>	<u>6.06%</u>	<u>\$4,636</u>	<u>6.28%</u>	<u>\$3,596</u>	<u>6.72%</u>	<u>\$20,844</u>	<u>6.90%</u>
TOTAL COST OF DEBT SECURITIES	<u>\$30,781</u>		<u>\$2,086</u>		<u>\$4,430</u>		<u>\$3,576</u>		<u>\$20,689</u>	

(1) The weighted average yield is computed using the amortized cost of debt securities available for sale.

Securities pledged primarily to secure trust and public deposits and for other purposes as required or permitted

by law was \$11.2 billion, \$13.8 billion and \$11.8 billion at December 31, 1998, 1997 and 1996, respectively.

Note 5 Loans and Allowance for Loan Losses

A summary of the major categories of loans outstanding is shown in the following table.

(in millions)	December 31,	
	1998	1997
Commercial	\$ 35,450	\$ 32,061
Real estate 1-4 family first mortgage	11,629	14,165
Other real estate mortgage	16,668	16,326
Real estate construction	3,790	3,326
Consumer:		
Real estate 1-4 family junior lien mortgage	10,996	10,618
Credit card	5,795	6,671
Other revolving credit and monthly payment	15,677	17,021
Total consumer	32,468	34,310
Lease financing	6,380	4,968
Foreign	1,609	1,155
Total loans (1)	<u>\$107,994</u>	<u>\$106,311</u>

(1) Outstanding loan balances at December 31, 1998 and 1997 are net of unearned income, including net deferred loan fees, of \$2,967 million and \$2,938 million, respectively.

Total unfunded commitments to extend credit were \$71,467 million and \$66,511 million at December 31, 1998 and 1997, respectively. Unfunded commitments are defined as all legally binding agreements to extend credit, net of all funds lent and all standby and commercial letters of credit issued under the terms of those commitments. At December 31, 1998 and 1997, the commercial loan category and related unfunded commitments did not have an industry concentration that exceeded 10% of total loans and unfunded commitments. The table below summarizes the major categories of unfunded commitments to extend credit:

(in millions)	December 31, 1998
Commercial	\$ 34,892
Real estate 1-4 family first mortgage	1,311
Other real estate mortgage	1,302
Real estate construction	3,007
Consumer:	
Real estate 1-4 family junior lien mortgage	5,792
Credit card	18,874
Other revolving credit and monthly payment	6,236
Total consumer	30,902
Lease financing	—
Foreign	53
Total unfunded commitments to extend credit	<u>\$ 71,467</u>

In the course of evaluating the credit risk presented by a customer and the pricing that will adequately compensate the Company for assuming that risk, management may determine a requisite amount of collateral support. The type of collateral held varies, but may include accounts receivable, inventory, land,

buildings, equipment, income-producing commercial properties and residential real estate. The Company has the same collateral policy for loans whether they are funded immediately or on a delayed basis (commitment).

A commitment to extend credit is a legally binding agreement to lend funds to a customer and is usually for a specified interest rate and purpose. These commitments have fixed expiration dates and generally require a fee. The extension of a commitment gives rise to credit risk. The actual liquidity needs or the credit risk that the Company will experience will be lower than the contractual amount of commitments to extend credit shown in the table to the left because a significant portion of these commitments is expected to expire without being drawn upon. Certain commitments are subject to a loan agreement containing covenants regarding the financial performance of the customer that must be met before the Company is required to fund the commitment. The Company uses the same credit policies in making commitments to extend credit as it does in making loans.

In addition, the Company manages the potential credit risk in commitments to extend credit by limiting the total amount of arrangements, both by individual customer and in the aggregate; by monitoring the size and maturity structure of these portfolios; and by applying the same credit standards maintained for all of its related credit activities. The credit risk associated with these commitments is considered in management's determination of the allowance for loan losses.

Standby letters of credit totaled \$3,332 million and \$3,716 million at December 31, 1998 and 1997, respectively. Standby letters of credit are issued on behalf of customers in connection with contracts between the customers and third parties. Under standby letters of credit, the Company assures that the third

parties will receive specified funds if customers fail to meet their contractual obligations. The liquidity risk to the Company arises from its obligation to make payment in the event of a customer's contractual default. The credit risk involved in issuing letters of credit and the Company's management of that credit risk is considered in management's determination of the allowance for loan losses. Standby letters of credit are net of participations sold to other institutions of \$837 million in 1998 and \$573 million in 1997.

Included in standby letters of credit are those that back financial instruments (financial guarantees). The Company had issued or purchased participations in financial guarantees of approximately \$2,188 million and \$2,140 million at December 31, 1998 and 1997, respectively. The Company also had commitments for commercial and similar letters of credit of \$691 million and \$751 million at December 31, 1998 and 1997, respectively. Substantially all fees received from the issuance of financial guarantees are deferred and amortized on a straight-line basis over the term of the guarantee. Losses on standby letters of credit and other similar letters of credit have been immaterial.

The Company has an established process to determine the adequacy of the allowance for loan losses which assesses the risk and losses inherent in its portfolio. This process provides an allowance consisting of two components, allocated and unallocated. To arrive at the allocated component of the allowance, the Company combines estimates of the allowances needed for loans analyzed individually (including impaired loans subject to Statement of Financial Accounting Standards No. 114 (FAS 114), Accounting by Creditors for Impairment of a Loan) and loans analyzed on a pool basis.

The determination of allocated reserves for portfolios of larger commercial and commercial real estate loans involves a review of individual higher-risk transactions, focusing on the accuracy of loan grading, assessments of specific loss content, and, in some cases, strategies for resolving problem credits. These considerations supplement the application of loss factors delineated by individual loan grade to the existing distribution of risk exposures, thus framing an assessment of inherent losses across the entire wholesale lending portfolio segment which is responsive to shifts in portfolio risk content. The loss factors used for this analysis have been derived from migration models which track actual portfolio movements from problem asset loan grades to loss over a 5 to 10 year period. In the case of pass loan grades, the loss factors are derived from analogous loss experience in public debt markets, calibrated to the long-term average loss experience of the Company's portfolios. The loan loss reserve allocations arrived at through this loss factor methodology are adjusted by management's judgment concerning the effect of recent economic events on portfolio performance.

In the case of more homogeneous portfolios, such as consumer loans and leases, residential mortgage loans, and some segments of small business lending, the determination of allocated reserves is conducted at a more aggregate, or pooled, level. For portfolios of this nature, the risk assessment process emphasizes the development of rigorous forecasting models, which focus on recent delinquency and loss trends in different portfolio segments to project relevant risk metrics over an intermediate-term horizon. Such analyses are updated frequently to capture the most recent behavioral characteristics of the subject portfolios, as well as any changes in management's loss mitigation or customer solicitation strategies, in order to reduce the differences between estimated and observed losses. A reserve which approximates one year of projected net losses is provided as the baseline allocation for most homogeneous portfolios, to which management will add certain adjustments to ensure that a prudent amount of conservatism is present in the specific assumptions underlying that forecast.

While coverage of one year's losses is often adequate (particularly for homogeneous pools of loans and leases), the time period covered by the allowance may vary by portfolio, based on the Company's best estimate of the inherent losses in the entire portfolio as of the evaluation date. To mitigate the imprecision inherent in most estimates of expected credit losses, the allocated component of the allowance is supplemented by an unallocated component. The unallocated component includes management's judgmental determination of the amounts necessary for concentrations, economic uncertainties and other subjective factors; correspondingly, the relationship of the unallocated component to the total allowance for loan losses may fluctuate from period to period. At December 31, 1998, the unallocated portion amounted to 37% of the total allowance, compared to 33% at December 31, 1997. Although management has allocated a portion of the allowance to specific loan categories, the adequacy of the allowance must be considered in its entirety.

The Company's determination of the level of the allowance and, correspondingly, the provision for loan losses rests upon various judgments and assumptions, including general economic conditions, loan portfolio composition, prior loan loss experience and the Company's ongoing examination process and that of its regulators. The Company has an internal risk analysis and review staff that reports to the Board of Directors and continuously reviews loan quality. Such reviews also assist management in establishing the level of the allowance. Like all national banks, subsidiary national banks continue to be subject to examination by their primary regulator, the Office of the Comptroller of the Currency (OCC), and some have OCC examiners in residence. These examinations occur throughout the year and target various activities of the

subsidiary national banks, including specific segments of the loan portfolio (for example, commercial real estate and shared national credits). In addition to the subsidiary national banks being examined by the OCC, the Parent and its nonbank subsidiaries are examined by the Federal Reserve.

The Company considers the allowance for loan losses of \$3,134 million adequate to cover losses inherent in loans, loan commitments and standby letters of credit at December 31, 1998.

Changes in the allowance for loan losses were as follows:

(in millions)	Year ended December 31,		
	1998	1997	1996
Balance, beginning of year	\$ 3,062	\$ 3,059	\$ 2,711
Allowances related to assets acquired, net	144	168	870
Provision for loan losses	1,545	1,140	500
Loan charge-offs:			
Commercial	(261)	(357)	(200)
Real estate 1-4 family first mortgage	(26)	(26)	(24)
Other real estate mortgage	(54)	(26)	(50)
Real estate construction	(3)	(5)	(14)
Consumer:			
Real estate 1-4 family junior lien mortgage	(31)	(37)	(38)
Credit card	(535)	(579)	(487)
Other revolving credit and monthly payment	(1,002)	(618)	(488)
Total consumer	(1,568)	(1,234)	(1,013)
Lease financing	(48)	(46)	(35)
Foreign	(84)	(37)	(35)
Total loan charge-offs	<u>(2,044)</u>	<u>(1,731)</u>	<u>(1,371)</u>
Loan recoveries:			
Commercial	82	105	89
Real estate 1-4 family first mortgage	11	9	12
Other real estate mortgage	78	62	57
Real estate construction	4	12	12
Consumer:			
Real estate 1-4 family junior lien mortgage	7	10	10
Credit card	56	61	50
Other revolving credit and monthly payment	163	144	101
Total consumer	226	215	161
Lease financing	12	13	9
Foreign	14	10	9
Total loan recoveries	<u>427</u>	<u>426</u>	<u>349</u>
Total net loan charge-offs	<u>(1,617)</u>	<u>(1,305)</u>	<u>(1,022)</u>
Balance, end of year	<u>\$ 3,134</u>	<u>\$ 3,062</u>	<u>\$ 3,059</u>
Total net loan charge-offs as a percentage of average total loans	<u>1.52%</u>	<u>1.25%</u>	<u>1.04%</u>
Allowance as a percentage of total loans	<u>2.90%</u>	<u>2.88%</u>	<u>2.89%</u>

In accordance with FAS 114, the table below shows the recorded investment in impaired loans by methodology used to measure impairment at December 31, 1998 and 1997:

(in millions)	December 31,	
	1998	1997
Impairment measurement based on:		
Collateral value method	\$329	\$346
Discounted cash flow method	67	61
Historical loss factors	15	27
Total (1)(2)	<u>\$411</u>	<u>\$434</u>

(1) Includes accruing loans of \$23 million at December 31, 1998 and 1997 that were purchased at a steep discount whose contractual terms were modified after acquisition. The modified terms did not affect the book balance nor the yields expected at the date of purchase.

(2) Includes \$155 million and \$115 million of impaired loans with a related FAS 114 allowance of \$37 million and \$36 million at December 31, 1998 and 1997, respectively.

The average recorded investment in impaired loans during 1998, 1997 and 1996 was \$456 million, \$513 million and \$655 million, respectively. Total interest income recognized on impaired loans during 1998, 1997 and 1996 was \$13 million, \$15 million and \$21 million, respectively, which was primarily recorded using the cash method.

The Company uses either the cash or cost recovery method to record cash receipts on impaired loans that are on nonaccrual. Under the cash method, contractual interest is credited to interest income when received. This method is used when the ultimate collectibility of the total principal is not in doubt. Under the cost recovery method, all payments received are applied to principal. This method is used when the ultimate collectibility of the total principal is in doubt. Loans on the cost recovery method may be changed to the cash method when the application of the cash payments has reduced the principal balance to a level where collection of the remaining recorded investment is no longer in doubt.

The following table presents comparative data for premises and equipment:

(in millions)	December 31,	
	1998	1997
Land	\$ 357	\$ 364
Buildings	2,135	2,403
Furniture and equipment	2,688	2,474
Leasehold improvements	732	609
Premises leased under capital leases	<u>80</u>	<u>125</u>
Total	5,992	5,975
Less accumulated depreciation and amortization	<u>2,862</u>	<u>2,664</u>
Net book value	<u>\$3,130</u>	<u>\$3,311</u>

Depreciation and amortization expense was \$491 million, \$457 million and \$451 million in 1998, 1997 and 1996, respectively. Losses on disposition of premises and equipment, recorded in noninterest expense, were \$325 million, \$76 million and \$45 million in 1998, 1997 and 1996, respectively. Gains (losses) from disposition of operations, recorded in noninterest income, were \$100 million, \$15 million and \$(95) million in 1998, 1997 and 1996, respectively.

The Company is obligated under a number of non-cancelable operating leases for premises (including vacant premises) and equipment with terms, including renewal options, up to 100 years, many of which provide for periodic adjustment of rentals based on changes in various economic indicators. The following table shows future minimum payments under noncancelable operating leases and capital leases, net of sublease rentals, with terms in excess of one year as of December 31, 1998:

(in millions)	Operating leases	Capital leases
Year ended December 31,		
1999	\$ 397	\$ 8
2000	322	7
2001	248	6
2002	187	5
2003	144	5
Thereafter	<u>905</u>	<u>25</u>
Total minimum lease payments	<u>\$2,203</u>	56
Executory costs		(2)
Amounts representing interest		<u>(18)</u>
Present value of net minimum lease payments		<u>\$36</u>

Rental expense, net of rental income, for all operating leases was \$473 million, \$441 million and \$427 million in 1998, 1997 and 1996, respectively.

The components of interest receivable and other assets at December 31, 1998 and 1997 were as follows:

(in millions)	December 31,	
	1998	1997
Nonmarketable equity investments	\$ 2,392	\$ 1,860
Interest receivable	1,062	1,057
Trading assets	760	1,302
Certain identifiable intangible assets	212	206
Other real estate (ORE)	173	264
Due from customers on acceptances	128	129
Interest-earning deposits	113	68
Other	<u>6,054</u>	<u>5,190</u>
Total interest receivable and other assets	<u>\$10,894</u>	<u>\$10,076</u>

Income from nonmarketable equity investments accounted for using the cost method was \$151 million, \$157 million and \$137 million in 1998, 1997 and 1996, respectively.

Trading assets consist predominantly of securities, including corporate debt and U.S. government agency obligations. Income from trading assets was \$206 million, \$151 million and \$79 million in 1998, 1997 and 1996, respectively.

Amortization expense for certain identifiable intangible assets included in other assets was \$79 million, \$74 million and \$78 million in 1998, 1997 and 1996, respectively.

Note 7 Deposits

The aggregate amount of time certificates of deposit and other time deposits issued by domestic offices was \$31,252 million and \$32,257 million at December 31, 1998 and 1997, respectively. At December 31, 1998, the contractual maturities of these deposits were as follows: \$24,931 million in 1999, \$3,752 million in 2000, \$1,485 million in 2001, \$454 million in 2002, \$380 million in 2003 and \$250 million thereafter. Substantially all of these deposits were interest bearing.

Of the total above, the amount of time deposits with a denomination of \$100,000 or more was \$8,053 million and \$7,571 million at December 31, 1998 and 1997, respectively. At December 31, 1998, the contractual

maturities of these deposits were as follows: \$3,391 million in 3 months or less, \$1,893 million over 3 through 6 months, \$1,999 million over 6 through 12 months and \$770 million over 12 months.

Time certificates of deposit and other time deposits issued by foreign offices with a denomination of \$100,000 or more represent substantially all of the foreign deposit liabilities of \$746 million and \$1,402 million at December 31, 1998 and 1997, respectively.

Demand deposit overdrafts that have been reclassified as loan balances were \$678 million and \$703 million at December 31, 1998 and 1997, respectively.

Note 8 Short-Term Borrowings

The table below shows selected information for short-term borrowings. These borrowings generally mature in less than 30 days.

At December 31, 1998, the Company had available lines of credit totaling \$2,521 million, all of which was

obtained by a subsidiary, Norwest Financial. A portion of these financing arrangements require the maintenance of compensating balances or payment of fees, which are not material.

(in millions)	1998		1997		1996	
	Amount	Rate	Amount	Rate	Amount	Rate
As of December 31,						
Commercial paper and other short-term borrowings	\$ 9,553	5.26%	\$ 6,456	5.73%	\$ 5,309	5.37%
Federal funds purchased and securities sold under agreements to repurchase	<u>6,344</u>	4.18	<u>6,925</u>	5.59	<u>4,694</u>	5.26
Total	<u>\$15,897</u>	4.83	<u>\$13,381</u>	5.65	<u>\$10,003</u>	5.32
Year ended December 31,						
Average daily balance						
Commercial paper and other short-term borrowings	\$ 7,676	5.60%	\$ 5,473	5.59%	\$ 5,998	5.37%
Federal funds purchased and securities sold under agreements to repurchase	<u>6,778</u>	5.11	<u>5,889</u>	5.17	<u>4,694</u>	5.10
Total	<u>\$14,454</u>	5.37	<u>\$11,362</u>	5.37	<u>\$10,692</u>	5.26
Maximum month-end balance						
Commercial paper and other short-term borrowings (1)	\$10,236	NA	\$ 6,456	NA	\$ 7,785	NA
Federal funds purchased and securities sold under agreements to repurchase (2)	10,364	NA	8,722	NA	6,320	NA

NA-Not applicable.

(1) Highest month-end balance in each of the last three years appeared in October 1998, December 1997 and July 1996, respectively.

(2) Highest month-end balance in each of the last three years appeared in April 1998, June 1997 and January 1996, respectively.

Note 9 Long-Term Debt

The following is a summary of long-term debt (reflecting unamortized debt discounts and premiums, where applicable) owed by the Parent and its subsidiaries:

(in millions)	Maturity date	Interest rate	1998	1997
Wells Fargo & Company (Parent only)				
Senior				
Medium-Term Notes (1)	1999-2006	5.625% - 8.15%	\$ 3,275	\$ 4,225
Medium-Term Notes	1999-2027	4.90% - 7.75%	1,125	233
Floating Rate Medium-Term Notes	1999	Various	700	330
Floating Rate Euro Medium-Term Notes	2001	Various	300	300
Notes (1)	2004	6.00%	2	100
Notes (1)	2000	6.00%	202	200
ESOP Notes	1999	8.52%	4	9
Total senior debt - Parent			<u>5,608</u>	<u>5,397</u>
Subordinated				
Notes	2003	6.625%	200	200
Debentures	2023	6.65%	200	200
Other notes (1)	2003-2004	6.0% - 6.625%	2	8
Total subordinated debt - Parent			<u>402</u>	<u>408</u>
Total long-term debt - Parent			<u>6,010</u>	<u>5,805</u>
WFC Holdings Corporation and subsidiaries				
Senior				
Floating-Rate Medium-Term Notes	1999	Various	150	1,460
Notes (1)	1998	11.00%	—	55
Medium-Term Notes (1)(2)	1999-2002	7.78% - 10.90%	243	356
Notes payable by subsidiaries			51	53
Obligations of subsidiaries under capital leases (Note 6)			20	59
Total senior debt - WFC Holdings			<u>464</u>	<u>1,983</u>
Subordinated				
Floating-Rate Capital Notes (3)(4)(5)	1998	Various	—	200
Floating-Rate Notes (3)(4)	2000	Various	118	118
Capital Notes (5)	1999	8.625%	183	186
Notes (1)(2)(6)	2002	8.15%	—	101
Notes	2002	8.75%	195	200
Notes	2002	8.375%	138	149
Notes	2003	6.875%	150	150
Notes	2003	6.125%	249	249
Notes (1)(2)	2004	9.125%	136	137
Notes (1)(2)(6)	2004	9.0%	127	124
Notes (1)	2006	6.875%	499	499
Notes (1)(2)	2006	7.125%	299	299
Notes	2008	6.25%	199	—
Medium-Term Notes (1)	2001-2002	9.38% - 11.25%	157	173
Medium-Term Notes	2013	6.50% - 6.63%	50	—
Total subordinated debt - WFC Holdings			<u>2,500</u>	<u>2,585</u>
Total long-term debt - WFC Holdings			<u>2,964</u>	<u>4,568</u>
Norwest Financial, Inc. and its subsidiaries (NFI)				
Senior debt				
Subordinated debt	1999-2009	4.79% - 8.65%	5,273	5,219
	1998	7.34%	—	2
Total long-term debt - NFI			<u>5,273</u>	<u>5,221</u>
Other consolidated subsidiaries				
Senior				
FHLB Notes and Advances (7)	1999-2027	3.15% - 8.38%	2,768	377
Floating Rate FHLB Advances (7)	1999-2011	Various	2,655	1,326
Senior Notes	1999-2000	12.25%	1	2
Other notes and debentures	1999-2006	3.00% - 12.72%	22	20
Capital lease obligations (Note 6)			16	16
Total long-term debt - other consolidated subsidiaries			<u>5,462</u>	<u>1,741</u>
Total consolidated long-term debt			<u>\$19,709</u>	<u>\$17,335</u>

(1) The Company entered into interest rate swap agreements for substantially all of these Notes, whereby the Company receives fixed-rate interest payments approximately equal to interest on the Notes and makes interest payments based on an average three-month or six-month LIBOR rate.

(2) The interest rate swap agreement for these Notes is callable by the counterparty prior to the maturity of the Notes.

(3) Notes are currently redeemable in whole or in part, at par.

(4) May be redeemed in whole, at par, at any time in the event withholding taxes are imposed by the United States.

(5) Mandatory Equity Notes.

(6) These Notes are redeemable in whole or in part, at par, prior to maturity.

(7) The maturities of the FHLB advances are determined quarterly, based on the outstanding balance, the then current LIBOR rate, and the maximum life of the advance. Advances maturing within the next year are expected to be refinanced, extending the maturity of such borrowings beyond one year.

At December 31, 1998, the principal payments, including sinking fund payments, on long-term debt are due as follows in the table below.

(in millions)	Parent	Company
1999	\$1,781	\$ 7,679
2000	802	1,928
2001	801	1,687
2002	526	1,611
2003	400	1,820
Thereafter	<u>1,700</u>	<u>4,984</u>
Total	<u>\$6,010</u>	<u>\$19,709</u>

The interest rates on floating-rate notes are determined periodically by formulas based on certain money market rates, subject, on certain notes, to minimum or maximum interest rates.

The terms of the Mandatory Equity Notes of \$183 million, due in 1999, require the Company to sell

or exchange with the noteholder the Company's common stock, perpetual preferred stock or other capital securities at maturity or earlier redemption of the Notes. At December 31, 1998, \$183 million of stockholders' equity had been designated for the retirement or redemption of these Notes. Repayment is subordinated, but only to the extent described in the indenture relating to the debentures, to the prior payment in full of all the Company's obligations for borrowed money. They are redeemable at the principal amount.

Certain of the agreements under which debt has been issued contain provisions that may limit the merger or sale of certain subsidiary banks and the issuance of capital stock or convertible securities by certain subsidiary banks. The Company was in compliance with the provisions of the borrowing agreements at December 31, 1998.

Note 10 Guaranteed Preferred Beneficial Interests in Company's Subordinated Debentures

In 1996, the former Wells Fargo established four separate special purpose trusts, which collectively issued \$1,150 million in trust preferred securities. In 1997, the former Wells Fargo issued an additional \$150 million in trust preferred securities through a separate trust. The proceeds from such issuances, together with the proceeds of the related issuances of common securities of the trusts, were invested in junior subordinated deferrable interest debentures (debentures) of the former Wells Fargo. Concurrent with the issuance of the preferred securities by the trusts, the former Wells Fargo issued guarantees for the benefit of the security holders. These trust preferred securities provide the Company with a more cost-effective means of obtaining Tier 1 capital for regulatory purposes than if the Company itself were to issue additional preferred stock because the Company is allowed to deduct, for income tax purposes, distributions to the holders of the trust preferred securities. The sole assets of these special purpose trusts are the debentures. WFC Holdings Corporation (WFC Holdings), as succes-

sor to the former Wells Fargo, owns all of the common securities of the five trusts. The preferred securities issued by the trusts rank senior to the common securities. The obligations of WFC Holdings under the debentures, the indentures, the relevant trust agreements and the guarantees, in the aggregate, constitute a full and unconditional guarantee by WFC Holdings of the obligations of the trusts under the trust preferred securities and rank subordinate and junior in right of payment to all other liabilities of WFC Holdings. The Parent guarantees the obligations of WFC Holdings.

Listed below are the series of trust preferred securities of Wells Fargo Capital A, Wells Fargo Capital B, Wells Fargo Capital C, Wells Fargo Capital I and Wells Fargo Capital II issued at \$1,000 per security. The distributions are cumulative and payable semi-annually on the first day of June and December for Wells Fargo Capital A, Wells Fargo Capital B and Wells Fargo Capital C and on the fifteenth day of June and December for Wells Fargo Capital I. The distributions are cumulative and payable

quarterly on the 30th of January, April, July and October for Wells Fargo Capital II. The trust preferred securities are subject to mandatory redemption at the stated maturity date of the debentures, upon repayment of the debentures, or earlier, pursuant to the terms of the Trust Agreement.

Wells Fargo Capital A: This trust issued \$300 million in trust preferred securities in November 1996 and concurrently invested \$309 million in debentures of WFC Holdings with a stated maturity of December 1, 2026. The Company repurchased \$85 million in this class of trust preferred securities in the open market in 1998. The repurchased securities were cancelled and the trust decreased its investment by \$88 million in debentures of WFC Holdings. This class of trust preferred securities will accrue semi-annual distributions of \$40.63 per security (8.13% annualized rate).

Wells Fargo Capital B: This trust issued \$200 million in trust preferred securities in November 1996 and concurrently invested \$206 million in debentures of WFC Holdings with a stated maturity of December 1, 2026. The Company repurchased \$153 million in this class of trust preferred securities on the open market in 1998. The repurchased securities were cancelled and the trust decreased its investment by \$158 million in debentures of WFC Holdings. This class of trust preferred securities will accrue semi-annual distributions of \$39.75 per security (7.95% annualized rate).

Wells Fargo Capital C: This trust issued \$250 million in trust preferred securities in November 1996 and concurrently invested \$258 million in debentures of WFC Holdings with a stated maturity of December 1, 2026. The Company repurchased \$186 million in this class of trust preferred securities on the open market in 1998. The repurchased securities were cancelled and the trust decreased its investment by \$192 million in debentures of WFC Holdings. This class of trust preferred securities will accrue semi-annual distributions of \$38.65 per security (7.73% annualized rate).

Wells Fargo Capital I: This trust issued \$400 million in trust preferred securities in December 1996 and concurrently invested \$412 million in debentures of WFC Holdings with a stated maturity of December 15, 2026. The Company repurchased \$212 million in this class of trust preferred securities on the open market in 1998. The repurchased securities were cancelled and the trust decreased its investment by \$219 million in debentures of WFC Holdings. This class of trust preferred securities will accrue semi-annual distributions of \$39.80 per security (7.96% annualized rate).

Wells Fargo Capital II: This trust issued \$150 million in trust preferred securities in January 1997 and concurrently invested \$155 million in debentures of WFC Holdings with a stated maturity of January 30, 2027. This class of trust preferred securities will accrue quarterly distributions at a variable annual rate of LIBOR plus 0.5%.

On or after December 2006 for Wells Fargo Capital A, Wells Fargo Capital B, Wells Fargo Capital C and Wells Fargo Capital I and on or after January 2007 for Wells Fargo Capital II, each of the series of trust preferred securities may be redeemed and the corresponding debentures may be prepaid at the option of WFC Holdings, subject to Federal Reserve approval, at declining redemption prices. Prior to December 2006 for Wells Fargo Capital A, Wells Fargo Capital B, Wells Fargo Capital C and Wells Fargo Capital I and prior to January 2007 for Wells Fargo Capital II, the securities may be redeemed at the option of WFC Holdings on the occurrence of certain events that result in a negative tax impact, negative regulatory impact on the trust preferred securities of WFC Holdings or negative legal or regulatory impact on the appropriate special purpose trust which would define it as an investment company. In addition, WFC Holdings has the right to defer payment of interest on the debentures and, therefore, distributions on the trust preferred securities for up to five years.

Note 11 Preferred Stock

The Company is authorized to issue 20,000,000 shares of preferred stock and 4,000,000 shares of preference stock, without par value. Of the 20,000,000 preferred shares authorized, there were 6,535,362 shares and 6,531,405 shares of preferred stock issued and outstanding at December 31, 1998 and 1997, respectively. No

shares of preference stock are currently outstanding. All preferred shares outstanding rank senior to common shares both as to dividends and liquidation preference but have no general voting rights.

The following table is a summary of preferred stock (adjustable and fixed):

	Shares issued and outstanding December 31,		Carrying amount (in millions) December 31,		Adjustable dividends rate		Dividends declared (in millions) Year ended December 31,		
	1998	1997	1998	1997	Minimum	Maximum	1998	1997	1996
Adjustable-Rate Cumulative, Series B (Liquidation preference \$50)	1,500,000	1,500,000	\$ 75	\$ 75	5.5%	10.5%	\$ 4	\$ 4	\$ 4
9% Cumulative, Series C (Liquidation preference \$500)(1)	—	—	—	—	—	—	—	—	21
8-7/8% Cumulative, Series D (Liquidation preference \$500)(2)	—	—	—	—	—	—	—	3	16
9-7/8% Cumulative, Series F (Liquidation preference \$200)(3)(4)	—	—	—	—	—	—	—	—	12
9% Cumulative, Series G (Liquidation preference \$200)(3)(5)	—	—	—	—	—	—	—	5	10
6.59%/Adjustable-Rate Noncumulative Preferred Stock, Series H (Liquidation preference \$50)	4,000,000	4,000,000	200	200	7.0	13.0	13	13	4
Cumulative Tracking (Liquidation preference \$200)	980,000	980,000	196	196	9.30	9.30	18	18	18
1998 ESOP Cumulative Convertible (Liquidation preference \$1,000)	8,740	—	9	—	10.75	11.75	—	—	—
1997 ESOP Cumulative Convertible (Liquidation preference \$1,000)	19,698	22,927	20	23	9.50	10.50	—	—	—
1996 ESOP Cumulative Convertible (Liquidation preference \$1,000)	22,068	22,831	22	23	8.50	9.50	—	—	—
1995 ESOP Cumulative Convertible (Liquidation preference \$1,000)	20,130	20,625	20	21	10.0	10.0	—	—	—
ESOP Cumulative Convertible (Liquidation preference \$1,000)	9,726	10,022	10	10	9.0	9.0	—	—	—
Unearned ESOP shares (6)	—	—	(84)	(80)	—	—	—	—	—
Less: Cumulative Tracking held by subsidiary (Liquidation preference \$200)	25,000	25,000	5	5	9.30	9.30	—	—	—
Total	6,535,362	6,531,405	\$463	\$463			\$35	\$43	\$85

(1) In December 1996, the Company redeemed all \$239 million (477,500 shares) of its Series C preferred stock.

(2) In March 1997, the Company redeemed all \$175 million (350,000 shares) of its Series D preferred stock.

(3) In April 1996, the Series F and Series G preferred stock were converted from First Interstate preferred stock into the right to receive one share of the Company's preferred stock.

(4) In November 1996, the Company redeemed all \$200 million (1,000,000 shares) of its Series F preferred stock.

(5) In May 1997, the Company redeemed all \$150 million (750,000 shares) of its Series G preferred stock.

(6) In accordance with the American Institute of Certified Public Accountants (AICPA) Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans," the Company recorded a corresponding charge to unearned ESOP shares in connection with the issuance of the ESOP Preferred Stock. The unearned ESOP shares are reduced as shares of the ESOP Preferred Stock are committed to be released. For information on dividends declared, see Note 12.

Adjustable-Rate Cumulative Preferred Stock, Series B These shares are redeemable at the option of the Company at \$50 per share plus accrued and unpaid dividends. Dividends are cumulative and payable quarterly on the 15th of February, May, August and November. For each quarterly period, the dividend rate is 76% of the highest of the three-month Treasury bill discount rate, 10-year constant maturity Treasury security yield or 20-year constant maturity Treasury bond yield, but limited to a minimum of 5.5% and a maximum of 10.5% per year. The average dividend rate was 5.5% during 1998, 1997 and 1996.

6.59%/Adjustable-Rate Noncumulative Preferred Stock, Series H These shares are redeemable at the option of the Company on or after October 1, 2001 at a price of \$50 per share plus accrued and unpaid dividends. Dividends are noncumulative and payable on the first day of each calendar quarter at an annualized rate of 6.59% through October 1, 2001. The dividend rate after October 1, 2001 will be equal to .44% plus the highest of the Treasury bill discount rate, the 10-year constant maturity rate and the 30-year constant maturity rate, as determined in advance of such dividend period, limited to a minimum of 7% and a maximum of 13%.

Cumulative Tracking Preferred Stock On December 30, 1994, the Company issued 980,000 shares of Cumulative Tracking Preferred Stock, \$200 liquidation value per share, of which 25,000 shares were held by a subsidiary at December 31, 1998, 1997 and 1996. Dividends on shares of Cumulative Tracking Preferred Stock are cumulative from the date of issue and are payable quarterly. The initial dividend rate is 9.30 percent per annum. The dividend rate is reset on January 1, 2000, and on January 1 of each fifth year thereafter. The reset rate is the greater of the 5-, 10-, or 30-year Treasury rate or three-month LIBOR plus 250 basis points. At the time of initial issuance of the shares of Cumulative Tracking Preferred Stock, the holders thereof became assignees of the Company's beneficial interest in an equivalent number of Class A preferred limited liability company interests of Residential Home Mortgage, L.L.C., a subsidiary of the Company. Holders

of shares of Cumulative Tracking Preferred Stock are entitled to receive, in addition to the dividends, certain additional cash distributions that are based on the results of operations of the limited liability company. The shares of Cumulative Tracking Preferred Stock may be redeemed after December 31, 1999, at the option of the Company. The shares of Cumulative Tracking Preferred Stock rank on a parity, both as to payment of dividends and the distribution of assets on liquidation, with the Company's ESOP Preferred Stock. The Cumulative Tracking Preferred Stock ranks prior, both as to payment of dividends and the distribution of assets upon liquidation, to common stock and, if any, the Company's junior participating preferred stock. At December 31, 1998, there were two holders of record of Cumulative Tracking Preferred Stock.

ESOP Cumulative Convertible Preferred Stock All shares of the Company's 1998 ESOP Cumulative Convertible Preferred Stock, 1997 ESOP Cumulative Convertible Preferred Stock, 1996 ESOP Cumulative Convertible Preferred Stock, 1995 ESOP Cumulative Convertible Preferred Stock and ESOP Cumulative Convertible Preferred Stock (collectively, ESOP Preferred Stock) were issued to a trustee acting on behalf of the Norwest Corporation Savings Investment Plan and Master Savings Trust (the Plan). Dividends on the ESOP Preferred Stock are cumulative from the date of initial issuance and are payable quarterly at annual rates ranging from 8.50 percent to 11.75 percent, depending upon the year of issuance. Each share of ESOP Preferred Stock released from the unallocated reserve of the Plan is converted into shares of common stock of the Company based on the stated value of the ESOP Preferred Stock and the then current market price of the Company's common stock. The ESOP Preferred Stock is also convertible at the option of the holder at any time, unless previously redeemed. The ESOP Preferred Stock is redeemable at any time, in whole or in part, at the option of the Company at a redemption price per share equal to the higher of (a) \$1,000 per share plus accrued and unpaid dividends and (b) the fair market value, as defined in the Certificates of Designation of the ESOP Preferred Stock.

Note 12

Common Stock and Stock Plans

COMMON STOCK

The table below summarizes common stock reserved, issued and authorized as of December 31, 1998:

	Number of shares
Convertible subordinated debentures and warrants (1)	35,962,948
Dividend reinvestment and common stock purchased plans	2,903,154
Director plans	1,288,212
Employee stock plans	184,997,869
Total shares reserved	225,152,183
Shares issued	1,661,392,590
Shares not reserved	2,113,455,227
Total shares authorized	4,000,000,000

(1) Includes warrants issued by the Company to subsidiaries to purchase shares of the Company's common stock as follows: 8,928,172 shares at \$42.50 per share in 1996, 11,000,176 shares at \$37.50 per share in 1995 and 16,000,000 shares at \$35.00 per share in 1994.

Under the terms of mandatory convertible debt, the Company must exchange with the noteholder, or sell, various capital securities of the Company as described in Note 9.

Each share of the Company's common stock includes one preferred share purchase right. These rights will become exercisable only if a person or group acquires or announces an offer to acquire 15 percent or more of the Company's common stock. When exercisable, each right will entitle the holder to buy one one-thousandth of a share of a new series of junior participating preferred stock at a price of \$160 for each one one-thousandth of a preferred share. In addition, upon the occurrence of certain events, holders of the rights will be entitled to purchase either the Company's common stock or shares in an "acquiring entity" at one-half of the then current market value. The Company will generally be entitled to redeem the rights at one cent per right at any time before they become exercisable. The rights will expire on November 23, 2008, unless extended, previously redeemed or exercised. The Company has reserved 1.125 million shares of preferred stock for issuance upon exercise of the rights.

DIVIDEND REINVESTMENT AND COMMON STOCK PURCHASE PLANS

The Company's dividend reinvestment and common stock direct purchase plans permit participants to purchase at fair market value shares of the Company's common stock by reinvestment of dividends and/or optional cash payments, subject to the terms of the plans.

DIRECTOR PLANS

Under the Company's director plans, directors receive stock as a part of their annual retainer or could elect to receive stock options in lieu of an annual cash retainer, subject to the terms of the respective plans. Another plan provides for annual grants of options to purchase common stock to each non-employee director elected or re-elected at the annual meeting of stockholders. Options granted become exercisable after one year and may be exercised until the tenth anniversary of the date of grant. Compensation expense for the options is measured as the quoted market price of the stock at the date of grant less the exercise price and is accrued over the vesting period.

EMPLOYEE STOCK PLANS

Long-Term Incentive Plans The Company's stock incentive plans provide for awards of incentive and nonqualified stock options, stock appreciation rights, restricted shares, restricted share rights, performance awards and stock awards without restrictions. Employee stock options can be granted with exercise prices at or above the quoted market price of the stock at the date of grant and with terms of up to ten years. The options generally become fully exercisable over three years from the date of grant. Upon termination of employment for reasons other than retirement, permanent disability or death, the option period is reduced or the options are canceled. Options also may include the right to acquire an Accelerated Ownership Non-Qualified Stock Option (AO). If an option contains the AO feature and if a participant pays all or part of the exercise price of the option with shares of stock purchased in the market or held by the participant for at least six months, upon

exercise of the option, the participant is granted an AO to purchase, at the quoted market price at the date of the AO grant, the number of shares of stock equal to the sum of the number of shares used in payment of the exercise price and a number of shares with respect to taxes. No compensation expense was recorded for the options granted under the plans, as the exercise price was equal to the quoted market price of the stock at the date of grant. The total number of shares of common stock available for grant under the plans as of December 31, 1998 is 60,528,277.

Holders of restricted shares and restricted share rights are entitled at no cost to the related shares of common stock generally five years after the restricted shares or restricted share rights were granted. Upon grant of the restricted shares or restricted share rights, generally holders are entitled to receive quarterly cash payments equal to the cash dividends that would be paid on common stock equal to the number of restricted shares or restricted share rights. Except in limited circumstances, restricted shares and restricted share rights are canceled upon termination of employment. In 1998, 1997 and 1996, there were 371,560, 280,020 and 952,330 restricted shares and restricted share rights granted, respectively, with a weighted-average grant-date fair value of \$37.72, \$30.89 and \$23.69, respectively. As of December 31, 1998, 1997 and 1996, there were 3,086,500, 2,084,540 and 1,097,000 restricted shares and restricted share rights outstanding, respectively. The compensation expense for the restricted shares and restricted share rights equals the quoted market price of the related stock at the date of grant and is accrued on a straight-line basis over the vesting period. The total compensation expense recognized for the restricted shares and restricted share rights was \$9 million, \$11 million and \$10 million in 1998, 1997 and 1996, respectively.

In connection with various acquisitions and mergers since 1992, the Company converted employee and director stock options of acquired or merged companies into stock options to purchase the Company's common stock based on the original stock option plan and the agreed-upon exchange ratio.

Broad-Based Plans In 1996, the Company adopted the Best Practices PartnerShares Plan, a broad-based employee stock option plan covering full- and part-time employees who were not participants in the long-term incentive plans described above. The total number of shares of common stock issuable under the plan as of December 31, 1998 is 56,569,400, including 16,082,000 shares available for grant. Options granted under the PartnerShares Plan have an exercise date that generally is the earlier of five years after the date of grant or when the quoted market price of the stock exceeds a predetermined price. Options generally expire ten years after the date of grant. No compensation expense has been recorded for the options, as the exercise prices were equal to or higher than the quoted market price of the Company's common stock at the respective dates of grant.

The Company also offers participation in the Employee Stock Purchase Plan (ESPP). Options to purchase 1,318,580 shares of common stock were outstanding as of December 31, 1998 under the ESPP. Employees of the former Wells Fargo who have completed their introductory period of employment, except hourly employees, are eligible to participate. Certain highly compensated employees may be excluded from participation at the discretion of a committee of the Board of Directors. The ESPP provides for a purchase price of the lower of the quoted market price of the stock at the date of grant or 85% to 100% (as determined by the Board of Directors for each period) of the quoted market price at the end of a one-year period. For the current period ending August 31, 1999, the Board approved a closing purchase price of 85% of the quoted market price. The ESPP is noncompensatory and results in no expense to the Company.

The following table summarizes the Company's stock option activity and related information for the three years ended December 31, 1998:

	Director Plans		Long-Term Incentive Plans		Broad-Based Plans	
	Number	Weighted-average exercise price	Number	Weighted-average exercise price	Number	Weighted-average exercise price
Options outstanding as of December 31, 1995	<u>335,710</u>	\$ 9.67	<u>47,289,664</u>	\$11.33	<u>1,299,800</u>	\$18.23
1996:						
Granted	113,910(1)	22.57	6,568,650(2)(3)	21.35	11,330,580(4)	17.43
Acquired (5)	—	—	9,379,334	9.33	—	—
Canceled	—	—	(719,358)	14.10	(1,087,990)	17.91
Exercised	<u>(5,000)</u>	6.63	<u>(13,416,038)</u>	10.08	<u>(768,330)</u>	18.23
Options outstanding as of December 31, 1996	<u>444,620</u>	13.01	<u>49,102,252</u>	12.59	<u>10,774,060</u>	17.42
1997:						
Granted	103,890(1)	23.49	29,985,212(2)(3)	30.31	23,678,530(4)	30.11
Canceled	—	—	(1,356,735)	22.89	(3,935,110)	17.93
Exercised	<u>(29,230)</u>	9.87	<u>(14,801,394)</u>	10.30	<u>(5,275,570)</u>	17.57
Options outstanding as of December 31, 1997	<u>519,280</u>	15.28	<u>62,929,335</u>	21.34	<u>25,241,910</u>	29.21
1998:						
Granted	84,860(1)	34.38	9,695,931(2)(3)	36.25	21,295,860(4)	37.29
Canceled	—	—	(1,521,074)	27.08	(2,866,310)	31.22
Exercised	<u>(102,610)</u>	11.72	<u>(10,330,783)</u>	15.50	<u>(1,865,480)</u>	21.40
Options outstanding as of December 31, 1998	<u>501,530</u>	<u>\$19.24</u>	<u>60,773,409</u>	<u>\$24.58</u>	<u>41,805,980</u>	<u>\$33.60</u>
Outstanding options exercisable as of:						
December 31, 1996	330,710	\$ 9.71	37,222,532	\$10.94	—	\$ —
December 31, 1997	417,920	13.23	33,930,575	14.12	3,315,200	16.90
December 31, 1998	434,020	17.29	35,990,530	19.57	3,255,200	22.05

(1) The weighted-average per share fair value of options granted was \$11.85, \$10.26 and \$9.05 for 1998, 1997 and 1996, respectively.

(2) The weighted-average per share fair value of options granted was \$7.40, \$5.08 and \$5.10 for 1998, 1997 and 1996, respectively.

(3) Includes 2,094,111, 2,687,762 and 2,680,800 AO grants at December 31, 1998, 1997 and 1996, respectively.

(4) The weighted-average per share fair value of options granted was \$5.42, \$4.92 and \$3.18 for 1998, 1997 and 1996, respectively.

(5) Options assumed in connection with the acquisition of First Interstate and Benson Financial Corporation.

The following table is a summary of selected information for the Company's stock option plans described on the preceding page:

	December 31, 1998		
	Weighted-average remaining contractual life (in yrs.)	Number	Weighted-average exercise price
RANGE OF EXERCISE PRICES			
Director Plans			
\$.10			
Options outstanding/exercisable	4.0	29,730	\$.10
\$4.46-\$6.69			
Options outstanding	3.1	32,520	6.46
Options exercisable		27,520	6.43
\$6.70-\$10.05			
Options outstanding/exercisable	2.0	45,000	7.45
\$10.06-\$15.09			
Options outstanding/exercisable	5.7	105,570	13.07
\$15.10-\$22.65			
Options outstanding	6.9	59,470	16.24
Options exercisable		46,580	16.03
\$22.66-\$33.99			
Options outstanding/exercisable	7.7	159,620	25.67
\$34.00-\$51.00			
Options outstanding	9.3	69,620	38.19
Options exercisable		20,000	38.20
Long-Term Incentive Plans			
\$2.24-\$3.36			
Options outstanding/exercisable	2.3	83,090	2.51
\$3.37-\$5.06			
Options outstanding/exercisable	4.3	285,254	4.62
\$5.07-\$7.60			
Options outstanding	2.8	4,197,516	7.22
Options exercisable		4,188,508	7.22
\$7.61-\$11.41			
Options outstanding	4.1	3,321,876	10.70
Options exercisable		3,319,728	10.70
\$11.42-\$17.13			
Options outstanding	5.1	11,450,694	13.84
Options exercisable		11,295,928	13.84
\$17.14-\$25.71			
Options outstanding	6.2	4,495,337	20.60
Options exercisable		4,430,509	20.56
\$25.72-\$38.58			
Options outstanding	8.5	35,970,343	31.57
Options exercisable		11,566,066	30.82
\$38.59-\$57.89			
Options outstanding	6.7	969,299	40.22
Options exercisable		821,447	40.33
Broad-Based Plans			
\$16.56-\$24.84			
Options outstanding/exercisable	7.5	2,191,000	16.56
\$24.85-\$37.81			
Options outstanding	9.0	39,614,980	34.53
Options exercisable		1,064,200	33.37

In October 1995, the FASB issued FAS 123, Accounting for Stock-Based Compensation. As provided for under FAS 123, the Company elected to continue to apply the provisions of Accounting Principles Board Opinion 25, Accounting for Stock Issued to Employees, in accounting for the stock plans described above. Had compensation cost for these stock plans been determined based on the (optional) fair value method established by FAS 123, the Company's net income and earnings per common share would have been reduced to the pro forma amounts indicated below.

(in millions, except per common share amounts)	Year ended December 31,		
	1998	1997	1996
Net income			
As reported	\$1,950	\$2,499	\$2,228
Pro forma (1)	1,867	2,448	2,210
Earnings per common share			
As reported	\$ 1.18	\$ 1.50	\$ 1.38
Pro forma (1)	1.13	1.43	1.36
Diluted earnings per common share			
As reported	\$ 1.17	\$ 1.48	\$ 1.36
Pro forma (1)	1.12	1.42	1.33

(1) The pro forma amounts noted above only reflect the effects of stock-based compensation grants made after 1994. Because stock options may be granted each year and generally vest over three years, these pro forma amounts may not reflect the full effect of applying the (optional) fair value method established by FAS 123 that would be expected if all outstanding stock option grants were accounted for under this method.

The fair value of each option grant is estimated based on the date of grant using an option-pricing model. The following weighted-average assumptions were used in 1998, 1997 and 1996: expected dividend yield ranging from 1.4% to 2.2%; expected volatility ranging from 20.0% to 29.0%; risk-free interest rates ranging from 5.5% to 7.8% and expected life ranging from 1 to 5.4 years.

Employee Stock Ownership Plan The Savings Investment Plan (SIP), a defined contribution plan, contains Employee Stock Ownership Plan (ESOP) provisions under which SIP may borrow money to purchase the Company's common or preferred stock. Beginning in 1994, the Company has loaned money to SIP which has been used to purchase shares of the Company's ESOP Preferred Stock. As ESOP Preferred Stock is released and converted into common shares, compensation expense is recorded equal to the current market price of the common shares. Dividends on the common shares allocated as a result of the release and conversion of the ESOP Preferred Stock are recorded as a reduction of retained earnings and the shares are considered outstanding for purposes of earnings per share computations. Dividends on the unallocated ESOP Preferred Stock are not recorded as a reduction of retained earnings, and the shares are not considered to be common stock equivalents for purposes of earnings per share computations. Loan principal and interest payments are made from the Company's contributions to SIP, along with dividends paid on the ESOP Preferred Stock. With each principal and interest payment, a portion of the ESOP Preferred Stock is released and, after conversion of the ESOP Preferred Stock into common shares, allocated to SIP participants.

In 1989, the Company loaned money to SIP which was used to purchase shares of the Company's common stock (the 1989 ESOP shares). The Company accounts for the 1989 ESOP shares in accordance with AICPA Statement of Position 76-3, Accounting Practices for Certain Employee Stock Ownership Plans. Accordingly, the Company's ESOP loans to SIP related to the purchase of the 1989 ESOP shares are recorded as a reduction of stockholders' equity, and compensation expense based on the cost of the shares is recorded as shares are released and allocated to participants' accounts. The 1989 ESOP shares are considered outstanding

for purposes of earnings per share computations and dividends on the shares are recorded as a reduction to retained earnings. The 1989 ESOP shares also include ESOP shares acquired in conjunction with business combinations accounted for under the pooling of interests method of accounting. The loans from the Company to SIP are repayable in monthly installments through April 26, 1999, with interest at 8.45%. Interest income on these loans was \$1 million in 1998, 1997 and 1996 and is included as a reduction in employee benefits expense. Total interest expense on the Series A and B ESOP Notes was \$1 million, \$1 million and \$4 million in 1998, 1997 and 1996, respectively. Total dividends paid to SIP on ESOP shares were as follows:

(in millions)	Year ended December 31,		
	1998	1997	1996
ESOP Preferred Stock:			
Common dividends	\$ 6	\$ 4	\$ 3
Preferred dividends	9	4	3
1989 ESOP shares:			
Common dividends	<u>11</u>	<u>11</u>	<u>9</u>
Total	<u>\$26</u>	<u>\$19</u>	<u>\$15</u>

The ESOP shares as of December 31, 1998 and 1997 were as follows:

	December 31,	
	1998	1997
ESOP Preferred Stock:		
Allocated shares (common)	8,592,898	7,793,681
Unreleased shares (preferred)	80,362	76,405
1989 ESOP shares:		
Allocated shares	15,018,861	15,555,673
Unreleased shares	320,285	1,053,925
Fair value of unearned ESOP shares (in millions)	\$80	\$76

Note 13

Employee Benefits and Other Expenses

EMPLOYEE BENEFITS

The Company's noncontributory defined benefit pension plans cover substantially all full-time employees of the former Norwest. The Company also has a defined benefit plan acquired as a result of the First Interstate Bancorp (First Interstate) acquisition. Pursuant to the First Interstate merger agreement, accrued benefits as of June 30, 1996 for all participants employed as of March 28, 1996 became fully vested. Effective June 30, 1996, all accrued benefits under the plan were frozen. The Company also provides health care and life insurance benefits for certain retired employees. The Company reserves the right to terminate those benefits at any time.

The following table shows the changes in the benefit obligation and the fair value of plan assets during 1998 and 1997 and the amounts included in the Company's Consolidated Balance Sheet as of December 31, 1998 and 1997 for the Company's defined benefit pension and other postretirement benefit plans:

(in millions)	December 31,			
	1998		1997	
	Pension benefits	Other benefits	Pension benefits	Other benefits
Change in benefit obligation				
Benefit obligation at beginning of year	\$2,141	\$ 457	\$1,903	\$ 424
Service cost	67	18	49	14
Interest cost	151	33	141	29
Plan participants' contributions	—	5	—	7
Amendments	1	—	—	—
Actuarial loss	231	58	144	15
Acquisitions	5	—	—	—
Benefits paid	(109)	(35)	(96)	(32)
Benefit obligation at end of year	<u>\$2,487</u>	<u>\$ 536</u>	<u>\$2,141</u>	<u>\$ 457</u>
Change in plan assets				
Fair value of plan assets at beginning of year	\$2,521	\$ 140	\$2,100	\$ 124
Actual return on plan assets	115	12	477	17
Acquisitions	4	—	—	—
Employer contribution	17	96	40	24
Plan participants' contributions	—	5	—	7
Benefits paid	(109)	(35)	(96)	(32)
Fair value of plan assets at end of year	<u>\$2,548</u>	<u>\$ 218</u>	<u>\$2,521</u>	<u>\$ 140</u>
Funded status	\$ 61	\$(318)	\$ 380	\$(317)
Unrecognized net actuarial gain	(48)	(5)	(350)	(52)
Unrecognized net transition asset	(7)	—	(9)	—
Unrecognized prior service cost	7	1	7	—
Prepaid (accrued) benefit cost	<u>\$ 13</u>	<u>\$(322)</u>	<u>\$ 28</u>	<u>\$(369)</u>

The following table sets forth the components of net periodic benefit cost for 1998, 1997 and 1996:

(in millions)	Year ended December 31,					
	1998		1997		1996	
	Pension benefits	Other benefits	Pension benefits	Other benefits	Pension benefits	Other benefits
Service cost	\$ 67	\$ 18	\$ 49	\$ 14	\$ 50	\$ 14
Interest cost	151	33	141	29	110	27
Expected return on plan assets	(205)	(11)	(174)	(10)	(132)	(8)
Recognized net actuarial (gain) loss (1)	21	(1)	13	(9)	(3)	(5)
Amortization of prior service cost	1	—	1	—	—	—
Amortization of unrecognized transition asset	(2)	—	(2)	—	(2)	—
Net periodic benefit cost	<u>\$ 33</u>	<u>\$ 39</u>	<u>\$ 28</u>	<u>\$ 24</u>	<u>\$ 23</u>	<u>\$ 28</u>

(1) Net gains and losses are generally amortized over five years.

The weighted-average assumptions used in calculating the amounts above were:

	Year ended December 31,			
	1998		1997	
	Pension benefits	Other benefits	Pension benefits	Other benefits
Discount rate	6.5%	6.5%	7.0%	6.9%-7.0%
Expected return on plan assets	8.5%-9.0%	9.0%	8.5%-9.0%	5.4%
Rate of compensation increase	5.0%	—%	5.0%	—%

Accounting for the health care plans uses a health care cost trend rate to recognize the effect of expected changes in future health care costs due to medical inflation, utilization changes, technological changes, regulatory requirements and Medicare cost shifting. Average annual increases of 5.5% for HMOs and 9.0% to 10.0% for all other types of coverage in the per capita cost of covered health care benefits were assumed for 1999. By 2006 and thereafter, rates were assumed to remain level for HMOs at 5.5% and for all other types of coverage at 5.5% to 8.0%. Increasing the assumed health care trend by one percentage point in each year would increase the benefit obligation as of December 31, 1998 by \$62 million and the aggregate of the interest cost and service cost components of the net periodic benefit cost for 1998 by \$8 million. Decreasing the assumed health care trend by one percentage point in each year would decrease the benefit

obligation as of December 31, 1998 by \$53 million and the aggregate of the interest cost and service cost components of the net periodic benefit cost for 1998 by \$6 million.

The Company sponsors two primary defined contribution plans. Expenses for all defined contribution plans were \$174 million, \$174 million, and \$143 million in 1998, 1997 and 1996, respectively.

OTHER EXPENSES

The table to the right shows expenses which exceeded 1% of total interest income and noninterest income and which are not otherwise shown separately in the financial statements or notes thereto.

(in millions)	Year ended December 31,		
	1998	1997	1996
Outside professional services	\$391	\$262	\$254
Contract services	342	271	329
Donations	257	44	20
Telecommunications	252	241	234
Outside data processing	250	217	216
Advertising and promotion	237	202	234
Postage	228	210	206
Travel and entertainment	212	188	188
Stationery and supplies	178	182	192

Note 14 Income Taxes

The following is a summary of the components of income tax expense applicable to income before income taxes:

(in millions)	Year ended December 31,		
	1998	1997	1996
Current:			
Federal	\$1,201	\$1,242	\$ 874
State and local	272	246	161
Foreign	(1)	33	37
	<u>1,472</u>	<u>1,521</u>	<u>1,072</u>
Deferred:			
Federal	(82)	147	371
State and local	(32)	37	100
Foreign	(15)	(11)	(4)
	<u>(129)</u>	<u>173</u>	<u>467</u>
Total	<u>\$1,343</u>	<u>\$1,694</u>	<u>\$1,539</u>

The Company's tax benefit related to the exercise of employee stock options that were allocated to stockholders' equity was \$90 million, \$93 million and \$37 million for 1998, 1997 and 1996, respectively.

The Company had a net deferred tax liability of \$177 million and \$163 million at December 31, 1998 and 1997, respectively. The tax effect of temporary differences that gave rise to significant portions of deferred tax assets and liabilities at December 31, 1998 and 1997 are presented below:

(in millions)	Year ended December 31,	
	1998	1997
Deferred Tax Assets		
Allowance for loan losses	\$1,143	\$1,087
Net tax-deferred expenses	1,325	1,137
Other	<u>271</u>	<u>365</u>
Total deferred tax assets	<u>2,739</u>	<u>2,589</u>
Deferred Tax Liabilities		
Core deposit intangible	498	624
Leasing	878	763
Mark to market	201	122
Mortgage servicing	871	747
FAS 115 adjustment	278	271
Other	<u>190</u>	<u>225</u>
Total deferred tax liabilities	<u>2,916</u>	<u>2,752</u>
Net Deferred Tax Liability	<u>\$ (177)</u>	<u>\$ (163)</u>

The Company has determined that it is not required to establish a valuation reserve for any of the deferred tax assets since it is more likely than not that these assets will be principally realized through carryback to taxable income in prior years, and future reversals of existing taxable temporary differences, and, to a lesser extent, future taxable income and tax planning strategies. The Company's conclusion that it is "more likely than not" that the deferred tax assets will be realized is based on federal taxable income of nearly \$6 billion in the carryback period, substantial state taxable income in

the carryback period, as well as a history of growth in earnings and the prospects for continued growth.

The deferred tax liability related to unrealized gains and losses on securities available for sale had no impact on 1998, 1997 or 1996 income tax expense as these gains and losses, net of taxes, were recorded in cumulative other comprehensive income.

The following table is a reconciliation of the statutory federal income tax expense and rate to the effective income tax expense and rate:

(in millions)	Year ended December 31,					
	1998		1997		1996	
	Amount	%	Amount	%	Amount	%
Statutory federal income tax expense and rate	\$1,153	35.0%	\$1,468	35.0%	\$1,320	35.0%
Change in tax rate resulting from:						
State and local taxes on income, net of federal income tax benefit	156	4.7	162	3.8	155	4.1
Amortization of goodwill not deductible for tax return purposes	125	3.8	151	3.6	118	3.1
Tax exempt income	(57)	(1.7)	(37)	(.9)	(27)	(.7)
Other	(34)	(1.0)	(50)	(1.1)	(27)	(.7)
Effective income tax expense and rate	<u>\$1,343</u>	<u>40.8%</u>	<u>\$1,694</u>	<u>40.4%</u>	<u>\$1,539</u>	<u>40.8%</u>

The Company has not recognized a federal deferred tax liability of \$36 million on \$102 million of undistributed earnings of a foreign subsidiary because such earnings are indefinitely reinvested in the subsidiary and are not taxable under current law. A deferred tax liability would be recognized to the extent the Company changed its intent

to not indefinitely reinvest a portion or all of such undistributed earnings. In addition, a current tax liability would be recognized if the Company recovered those undistributed earnings in a taxable manner, such as through the receipt of dividends or sale of the entity, or if the tax law changed.

Note 15

Earnings per Common Share

The table below shows dual presentation of earnings per common share and diluted earnings per common

share and a reconciliation of the numerator and denominator of both earnings per common share calculations.

(in millions, except per share amounts)	Year ended December 31,		
	1998	1997	1996
Net income	\$ 1,950	\$ 2,499	\$ 2,228
Less: Preferred stock dividends	<u>35</u>	<u>43</u>	<u>85</u>
Net income applicable to common stock	<u>\$ 1,915</u>	<u>\$ 2,456</u>	<u>\$ 2,143</u>
EARNINGS PER COMMON SHARE			
Net income applicable to common stock (numerator)	<u>\$ 1,915</u>	<u>\$ 2,456</u>	<u>\$ 2,143</u>
Average common shares outstanding (denominator)	<u>1,621.5</u>	<u>1,634.6</u>	<u>1,553.3</u>
Per share	<u>\$ 1.18</u>	<u>\$ 1.50</u>	<u>\$ 1.38</u>
DILUTED EARNINGS PER COMMON SHARE			
Net income applicable to common stock (numerator)	<u>\$ 1,915</u>	<u>\$ 2,456</u>	<u>\$ 2,143</u>
Average common shares outstanding	1,621.5	1,634.6	1,553.3
Add: Stock options	18.3	20.6	14.3
Restricted share rights	<u>2.0</u>	<u>2.6</u>	<u>2.9</u>
Diluted average common shares outstanding (denominator)	<u>1,641.8</u>	<u>1,657.8</u>	<u>1,570.5</u>
Per share	<u>\$ 1.17</u>	<u>\$ 1.48</u>	<u>\$ 1.36</u>

Note 16 Comprehensive Income

On January 1, 1998, the Company adopted FAS 130, Reporting Comprehensive Income. The Statement requires that a company classify items of other comprehensive income (and the related tax effect) by their nature (e.g., unrealized gains or losses on securities and foreign currency translation adjustments) in a financial statement.

The following table presents the related tax effect allocated to each component of other comprehensive income:

(in millions)	Before tax amount	Tax effect	Net of tax
1996:			
Translation adjustments	\$ (1)	\$ —	\$ (1)
Unrealized losses on securities available for sale arising during the year	(39)	(20)	(19)
Reclassification adjustment for gains on securities available for sale included in net income	(12)	(5)	(7)
Net unrealized losses arising during the year	(51)	(25)	(26)
Other comprehensive income	<u>\$ (52)</u>	<u>\$ (25)</u>	<u>\$ (27)</u>
1997:			
Translation adjustments	\$ 1	\$ —	\$ 1
Unrealized gains on securities available for sale arising during the year	339	133	206
Reclassification adjustment for gains on securities available for sale included in net income	(99)	(40)	(59)
Net unrealized gains arising during the year	240	93	147
Other comprehensive income	<u>\$ 241</u>	<u>\$ 93</u>	<u>\$ 148</u>
1998:			
Translation adjustments	\$ (6)	\$ (2)	\$ (4)
Unrealized gains on securities available for sale arising during the year	172	68	104
Reclassification adjustment for gains on securities available for sale included in net income	(169)	(68)	(101)
Net unrealized gains arising during the year	3	—	3
Other comprehensive income	<u>\$ (3)</u>	<u>\$ (2)</u>	<u>\$ (1)</u>

The following table presents cumulative other comprehensive income balances:

(in millions)	Translation adjustments	Unrealized gains (losses) on securities	Cumulative other comprehensive income
Balance, December 31, 1995	<u>\$ (10)</u>	<u>\$ 353</u>	<u>\$ 343</u>
Net change	(1)	(26)	(27)
Balance, December 31, 1996	<u>(11)</u>	<u>327</u>	<u>316</u>
Net change	1	147	148
Balance, December 31, 1997	<u>(10)</u>	<u>474</u>	<u>464</u>
Net change	(4)	3	(1)
Balance, December 31, 1998	<u><u>\$ (14)</u></u>	<u><u>\$ 477</u></u>	<u><u>\$ 463</u></u>

Note 17

Operating Segments

(income/expense in millions, average balances in billions)	Community Banking	Wholesale Banking	Mortgage Banking	Norwest Financial	Reconciliation column (7)	Consolidated Company
1998						
Net interest income (1)	\$6,192	\$1,344	\$ 254	\$ 1,303	\$ (103)	\$ 8,990
Provision for loan losses (2)	653	148	4	752	(12)	1,545
Noninterest income (3)	4,186	892	1,078	303	(32)	6,427
Noninterest expense (3)	7,109	787	986	878	819	10,579
Income (loss) before income tax expense (benefit)	2,616	1,301	342	(24)	(942)	3,293
Income tax expense (benefit) (4)	972	521	125	(5)	(270)	1,343
Net income (loss)	<u>\$1,644</u>	<u>\$ 780</u>	<u>\$ 217</u>	<u>\$ (19)</u>	<u>\$ (672)</u>	<u>\$ 1,950</u>
1997						
Net interest income (1)	\$6,313	\$1,343	\$ 69	\$ 1,167	\$ (244)	\$ 8,648
Provision for loan losses (2)	752	156	18	332	(118)	1,140
Noninterest income (3)	3,579	877	961	303	(45)	5,675
Noninterest expense (3)	5,750	731	774	758	977	8,990
Income (loss) before income tax expense (benefit)	3,390	1,333	238	380	(1,148)	4,193
Income tax expense (benefit) (4)	1,309	541	87	138	(381)	1,694
Net income (loss)	<u>\$2,081</u>	<u>\$ 792</u>	<u>\$ 151</u>	<u>\$ 242</u>	<u>\$ (767)</u>	<u>\$ 2,499</u>
1996						
Net interest income (1)	\$5,655	\$1,307	\$ 98	\$ 1,067	\$ 95	\$ 8,222
Provision for loan losses (2)	652	141	1	247	(541)	500
Noninterest income (3)	2,867	713	874	280	35	4,769
Noninterest expense (3)	5,451	650	778	692	1,153	8,724
Income (loss) before income tax expense (benefit)	2,419	1,229	193	408	(482)	3,767
Income tax expense (benefit) (4)	952	499	68	143	(123)	1,539
Net income (loss)	<u>\$1,467</u>	<u>\$ 730</u>	<u>\$ 125</u>	<u>\$ 265</u>	<u>\$ (359)</u>	<u>\$ 2,228</u>
1998						
Average loans	\$ 64	\$ 32	\$ 1	\$ 9	\$ —	\$ 106
Average assets	97	39	23	11	18	188
Average core deposits	110	9	5	—	—	124
Return on equity (5)	24 %	23 %	16 %	— %	— %	10%
Risk-adjusted efficiency ratio (6)	69 %	35 %	74 %	55 %	— %	—%
1997						
Average loans	\$ 65	\$ 30	\$ 1	\$ 8	\$ —	\$ 104
Average assets	100	37	13	9	23	182
Average core deposits	107	10	3	—	—	120
Return on equity (5)	22 %	25 %	18 %	20 %	— %	13%
Risk-adjusted efficiency ratio (6)	58 %	33 %	75 %	52 %	— %	—%

(1) Net interest income is the primary source of income for most of the operating segments. Net interest income is the difference between actual interest earned on assets (and interest paid on liabilities) owned by a group and a funding charge (and credit) based on the Company's cost of funds. Operating segments are charged a cost to fund any assets (e.g., loans) and are paid a funding credit for any funds provided (e.g., deposits). The interest spread is the difference between the interest rate earned on an asset or paid on a liability and the Company's cost of funds rate. (Mortgage Banking's net interest income comprises interest revenue of \$1,023 million, \$549 million and \$567 million for 1998, 1997 and 1996, respectively, and interest expense of \$769 million, \$480 million and \$469 million for 1998, 1997 and 1996, respectively.)

(2) The provision allocated to the operating segments is based on actual provisions and adjusted in certain lines of business for management's current assessment of what would have been a normalized net charge-off ratio for these businesses. In any particular year, the actual net charge-offs can be higher or lower than the normalized provision allocated to those operating segments that were adjusted. The difference between the normalized provision and the Company provision for these lines of business are included in the reconciling column.

(3) Community Banking's charges to the product groups are shown as noninterest income (intersegment revenues) to the physical distribution channels and noninterest expense (intersegment expenditures) to the other operating segments. They amounted to \$35 million in 1998 and 1997, and none in 1996. These charges are eliminated in the reconciliation column in arriving at the Consolidated Company totals for noninterest income and expense. All other noninterest revenues and expenses are derived from external sources.

(4) Businesses are taxed at the Company's marginal (statutory) tax rate, adjusted for any nondeductible expenses. The differences between the marginal and effective tax rate are in the reconciliation column.

(5) Equity is allocated to the operating segments based on an assessment of the inherent risk associated with each business so that the returns on allocated equity are on a risk-adjusted basis and comparable across operating segments.

(6) The risk-adjusted efficiency ratio is defined as noninterest expense plus the cost of capital divided by revenues (net interest income and noninterest income) less normalized loan losses.

(7) The material items in the reconciliation column related to the revenue (i.e., net interest income plus noninterest income) and net income consist of Treasury activities, eliminations and unallocated items. Revenue includes Treasury activities of \$125 million, \$87 million and \$185 million; eliminations of \$(101) million, \$(127) million and \$(2) million; and unallocated items of \$(159) million, \$(249) million, and \$(53) million for 1998, 1997 and 1996, respectively. Net income includes Treasury activities of \$64 million, \$46 million and \$107 million; eliminations of \$(39) million, \$(54) million and \$(27) million; and unallocated items of \$(697) million, \$(759) million and \$(439) million for 1998, 1997 and 1996, respectively. The material items in the reconciliation column related to noninterest expense include goodwill and nonqualifying CDI amortization of \$549 million, \$566 million and \$484 million for 1998, 1997 and 1996, respectively. The material items in the reconciliation column related to average assets include investment securities in Treasury of \$10 billion and \$14 billion and goodwill and nonqualifying CDI of \$8 billion and \$9 billion for 1998 and 1997, respectively.

The Company has identified four distinct lines of business for the purposes of management reporting: Community Banking, Wholesale Banking, Mortgage Banking and Norwest Financial. The results are determined based on the Company's management accounting process, which assigns balance sheet and income statement items to each responsible operating segment. This process is dynamic and somewhat subjective. Unlike financial accounting, there is no comprehensive, authoritative body of guidance for management accounting equivalent to generally accepted accounting principles. The management accounting process measures the performance of the operating segments based on the management structure of the Company and is not necessarily comparable with similar information for any other financial institution. The Company's operating segments are defined by product type and customer segments. Changes in management structure and/or the allocation process may result in changes in allocations, transfers and assignments. In that case, results for prior periods would be restated to allow comparability. Internal expense allocations are independently negotiated between operating segments and, where possible, service and price is measured against comparable services available in the external marketplace.

The Community Banking Group offers a complete line of diversified financial products and services for consumers and small businesses including retail and trust services. These services include retail and business banking services, consumer checking, lines of credit and direct installment loans and residential mortgage products. Community Banking offers a full array of consumer loan products, including credit cards, transportation (auto, recreational vehicle, marine) financing, home equity lines and loans, lines of credit and installment loans. Community Banking, through affiliates, also offers insurance, securities brokerage, and investment banking services. Community Banking offers consumer and business deposit products, which include checking and savings deposits. Community Banking provides access to customers through a wide range of channels. The Group encompasses a network of traditional banking stores, banking centers, in-store banking centers, business centers and ATMs. Community Banking serves consumers and small business customers through its 24-hour telephone centers, the Telephone Banking Centers and the National Business Banking Center. Online banking services include Wells Fargo's Online Financial Services, the Company's personal computer banking service, and Business Gateway, a personal computer banking service exclusively for the small business customer.

A full range of credit products and financial services are offered to small businesses and their owners. These include lines of credit, receivables and inventory financing, equipment loans and leases, real estate

financing, SBA financing, cash management, deposit and investment accounts, payroll services, retirement plans, medical savings accounts and credit and debit card processing. Community Banking customers are individual consumers and small businesses with annual sales up to \$10 million in which the owner is also the principal financial decision maker.

Community Banking distributes credit products in all 50 states and Canada through national direct marketing and 140 commercial loan specialists in small business lending offices in 22 markets in the western United States. Community Banking jointly owns a merchant card processing alliance with First Data Corp. which acquires customers through a 150-person sales force.

The Community Banking Group is also responsible for the sales and management of savings and investment products, investment management and fiduciary and brokerage services to institutions, retail customers and high net worth individuals. This includes the Stagecoach and Advantage family of mutual funds as well as personal trust, employee benefit trust and agency assets. It also includes product management for market rate accounts, savings deposits, Individual Retirement Accounts (IRAs) and time deposits. Within this Group, Private Client Services operates as a fully integrated financial services organization focusing on banking/credit, trust services, investment management and full-service and discount brokerage.

The Wholesale Banking Group serves businesses with annual sales in excess of \$5 million and maintains relationships with major corporations throughout the United States. The Wholesale Banking Group provides a complete line of commercial and corporate banking services. These include traditional commercial loans and lines, letters of credit, international trade facilities, foreign exchange services, cash management and electronic products. It includes the majority ownership interest in the Wells Fargo HSBC Trade Bank which provides trade and Eximbank (a public corporation offering export finance support programs for American-made products) financing, letters of credit and collection services. The Group also supports the commercial real estate market with products and services such as equipment leasing, construction loans for commercial and residential development, land acquisition and development loans, secured and unsecured lines of credit, interim financing arrangements for completed structures, rehabilitation loans, affordable housing loans and letters of credit. Secondary market services are provided through the Real Estate Capital Markets Group. Its business includes senior loan financing, mezzanine financing, financing for leveraged transactions, purchasing distressed real estate loans and high yield debt, origination of permanent loans for securitization, loan syndications and commercial real estate loan servicing.

The **Mortgage Banking Group** is comprised of Norwest Mortgage Banking. The group's activities include the origination and purchase of residential mortgage loans for sale to various investors as well as providing servicing of mortgage loans for others.

Norwest Financial includes consumer finance and auto finance operations. Consumer finance operations make direct loans to consumers and purchase sales finance contracts from retail merchants from offices throughout the United States, Canada, the Caribbean and Latin America. Automobile finance operations specialize in purchasing sales finance contracts directly from automobile dealers and making loans secured by automobiles in the United States and Puerto Rico. Credit cards are issued to its consumer finance customers through two

credit card banks. Norwest Financial also provides accounts receivable, lease, and other commercial financing and provides information services to the consumer finance industry.

The **Reconciliation Column** includes the Company's investment securities portfolio, goodwill and the nonqualifying core deposit intangible, the difference between the normalized provision for the line groups and the Company provision for loan losses, the net impact of transfer pricing loan and deposit balances, the cost of external debt, the elimination of intergroup noninterest income and expense, and any residual effects of unallocated systems and other support groups. It also includes the impact of asset/liability strategies the Company has put in place to manage interest rate sensitivity at the enterprise level.

Note 18 Mortgage Banking Activities

Mortgage banking activities include Norwest Mortgage Banking and certain mortgage banking activities in other operating segments. The following table presents the components of mortgage banking noninterest income:

(in millions)	Year ended December 31,		
	1998	1997	1996
Origination and other closing fees	\$ 530	\$314	\$305
Servicing fees, net of amortization	19	324	318
Net gains (losses) on sales of servicing rights	16	(8)	57
Net gains on sales of mortgages	296	120	13
Other	245	177	151
Total mortgage banking noninterest income	<u>\$1,106</u>	<u>\$927</u>	<u>\$844</u>

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The outstanding balances of serviced loans were \$245 billion, \$230 billion and \$202 billion at December 31, 1998, 1997 and 1996, respectively.

The following table summarizes the changes in capitalized mortgage loan servicing rights:

(in millions)	Year ended December 31,		
	1998	1997	1996
Balance, beginning of year	\$3,112	\$2,957	\$1,443
Originations	756	361	361
Purchases	720	462	1,624
Sales	(346)	(34)	(72)
Amortization	(816)	(513)	(364)
Other	(282)	(121)	(35)
	<u>3,144</u>	<u>3,112</u>	<u>2,957</u>
Less valuation allowance	<u>64</u>	<u>64</u>	<u>65</u>
Balance, end of year	<u>\$3,080</u>	<u>\$3,048</u>	<u>\$2,892</u>

The fair value of capitalized mortgage servicing rights included in the consolidated balance sheet at December 31, 1998 was approximately \$3.3 billion, calculated using discount rates ranging from 500 to 700 basis points over the ten-year U.S. Treasury rate.

The following table summarizes the changes in the valuation allowance for capitalized mortgage servicing rights:

(in millions)	Year ended December 31,		
	1998	1997	1996
Balance, beginning of year	\$64	\$65	\$64
Provision for (reversal of) capitalized mortgage servicing rights in excess of fair value	<u>—</u>	<u>(1)</u>	<u>1</u>
Balance, end of year	<u>\$64</u>	<u>\$64</u>	<u>\$65</u>

Note 19

Parent Company

Condensed financial information of the Parent follows.
For information regarding the Parent's long-term debt,
see Note 9.

CONDENSED STATEMENT OF INCOME

(in millions)	Year ended December 31,		
	1998	1997	1996
INCOME			
Dividends from subsidiaries:			
Bank	\$1,354	\$1,282	\$1,292
Nonbank	403	343	713
Interest income from subsidiaries	459	388	431
Service fees from subsidiaries	127	118	113
Noninterest income	21	152	158
Total income	<u>2,364</u>	<u>2,283</u>	<u>2,707</u>
EXPENSE			
Interest on:			
Short-term borrowings	275	153	165
Long-term debt	341	364	377
Noninterest expense	379	177	96
Total expense	<u>995</u>	<u>694</u>	<u>638</u>
Income before income tax benefit and undistributed income of subsidiaries	1,369	1,589	2,069
Income tax benefit (expense)	105	16	(32)
Equity in undistributed income of subsidiaries	476	894	191
NET INCOME	<u>\$1,950</u>	<u>\$2,499</u>	<u>\$2,228</u>

CONDENSED BALANCE SHEET

(in millions)	December 31,	
	1998	1997
ASSETS		
Cash and due from:		
Subsidiary banks	\$ 678	\$ 548
Non-affiliates	5	2
Securities available for sale	1,541	1,191
Advances to nonbank subsidiaries	6,800	5,590
Loans and advances to subsidiaries:		
Bank	10	10
Nonbank	2,631	1,562
Investment in subsidiaries (1):		
Bank	19,642	18,045
Nonbank	1,862	2,009
Other assets	1,603	1,235
Total assets	<u>\$34,772</u>	<u>\$30,192</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Short-term borrowings	\$5,418	\$ 3,574
Other liabilities	1,279	658
Long-term debt	6,010	5,805
Indebtedness to subsidiaries	1,296	367
Stockholders' equity	20,769	19,788
Total liabilities and stockholders' equity	<u>\$34,772</u>	<u>\$30,192</u>

(1) The double leverage ratio, which represents the ratio of the Parent's total equity investment in subsidiaries to its total stockholders' equity, was 104% and 101% at December 31, 1998 and 1997, respectively.

CONDENSED STATEMENT OF CASH FLOWS

(in millions)	Year ended December 31,		
	1998	1997	1996
Cash flows from operating activities:			
Net income	\$1,950	\$2,499	\$2,228
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed income of subsidiaries	(476)	(894)	(191)
Depreciation and amortization	10	19	21
Securities available for sale (gains) losses	(3)	(6)	(5)
Release of preferred shares to ESOP	33	34	38
Other assets, net	(401)	(798)	(103)
Accrued expenses and other liabilities	<u>618</u>	<u>304</u>	<u>(65)</u>
Net cash provided by operating activities	<u>1,731</u>	<u>1,158</u>	<u>1,923</u>
Cash flows from investing activities:			
Securities available for sale:			
Proceeds from sales	185	164	62
Proceeds from prepayments and maturities	665	299	70
Purchases	(1,273)	(326)	(349)
Advances to non-bank subsidiaries	(1,210)	(140)	(901)
Principal collected on notes/loans of subsidiaries	89	46	841
Capital notes and term loans made to subsidiaries	(1,158)	(113)	(165)
Net increase in investment in subsidiaries	<u>(295)</u>	<u>(384)</u>	<u>(852)</u>
Net cash used by investing activities	<u>(2,997)</u>	<u>(454)</u>	<u>(1,294)</u>
Cash flows from financing activities:			
Net increase in short-term borrowings and indebtedness to subsidiaries	2,773	1,709	(6)
Proceeds from issuance of long-term debt	500	403	1,803
Repayment of long-term debt	(295)	(981)	(1,260)
Proceeds from issuance of common stock	171	150	83
Issuance of stock warrants to subsidiaries	—	—	2
Repurchases of preferred stock	—	—	(113)
Repurchases of common stock	(742)	(483)	(402)
Net decrease in ESOP loans	9	1	4
Payment of cash dividends	<u>(1,017)</u>	<u>(968)</u>	<u>(900)</u>
Net cash provided (used) by financing activities	<u>1,399</u>	<u>(169)</u>	<u>(789)</u>
Net change in cash and cash equivalents	133	535	(160)
Cash and cash equivalents at beginning of year	<u>550</u>	<u>15</u>	<u>175</u>
Cash and cash equivalents at end of year	<u>\$ 683</u>	<u>\$ 550</u>	<u>\$ 15</u>

Note 20 WFC Holdings Corporation

WFC Holdings is a wholly owned subsidiary of the Parent and the survivor of the Merger with the former Wells Fargo. WFC Holdings is the sole stockholder of Wells Fargo Bank, N.A. The Parent guarantees the

debt obligations of WFC Holdings. In view of this, the summarized assets, liabilities and results of operations of WFC Holdings are presented below:

SUMMARIZED CONSOLIDATED INCOME STATEMENT

(in millions)	Year ended December 31,		
	1998	1997	1996
Interest income	\$6,654	\$6,904	\$6,523
Interest expense	2,107	2,290	2,002
Provision for loan losses	670	615	105
Noninterest income	2,911	2,712	2,203
Noninterest expense	<u>4,818</u>	<u>4,547</u>	<u>4,633</u>
Income before income tax expense	1,970	2,164	1,986
Income tax expense	<u>938</u>	<u>1,002</u>	<u>911</u>
Net income	<u>\$1,032</u>	<u>\$1,162</u>	<u>\$1,075</u>

SUMMARIZED CONSOLIDATED BALANCE SHEET

(in millions)	December 31,	
	1998	1997
ASSETS		
Cash and due from banks	\$ 7,513	\$ 8,169
Securities available for sale	9,737	9,888
Loans, net	63,721	63,906
Other assets	<u>17,185</u>	<u>15,541</u>
Total assets	<u>\$98,156</u>	<u>\$97,504</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Short-term borrowings	\$ 1,473	\$3,825
Long-term debt	3,729	4,568
Other liabilities	78,341	74,990
Guaranteed preferred beneficial interest in Company's subordinated debentures	785	1,299
Stockholder's equity	<u>13,828</u>	<u>12,822</u>
Total liabilities and stockholder's equity	<u>\$98,156</u>	<u>\$97,504</u>

Note 21 Legal Actions

In the normal course of business, the Company is at all times subject to numerous pending and threatened legal actions, some for which the relief or damages sought are substantial. After reviewing pending and threatened actions with counsel, management believes that the outcome of such actions will not have a material adverse effect on stockholders' equity of the Company; the

Company is not able to predict whether the outcome of such actions may or may not have a material adverse effect on results of operations in a particular future period as the timing and amount of any resolution of such actions and its relationship to the future results of operations are not known.

Note 22 Risk-Based Capital

The Company and each of the subsidiary banks are subject to various regulatory capital adequacy requirements administered by the FRB and the OCC, respectively. The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) required that the federal regulatory agencies adopt regulations defining five capital tiers for banks: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements.

Quantitative measures, established by the regulators to ensure capital adequacy, require that the Company and each of the subsidiary banks maintain minimum ratios (set forth in the table below) of capital to risk-weighted assets. There are two categories of capital under the guidelines. Tier 1 capital includes common stockholders' equity, qualifying preferred stock and trust preferred securities, less goodwill and certain other deductions (including the unrealized net gains and losses, after applicable taxes, on available-for-sale securities carried at fair value). Tier 2 capital includes preferred stock not qualifying as Tier 1 capital, mandatory convertible debt, subordinated debt, certain unsecured senior debt issued by the Parent, the allowance for loan losses and net unrealized gains on marketable equity securities, subject to limitations by the guidelines. Tier 2 capital is limited to the amount of Tier 1 capital (i.e., at least half of the total capital must be in the form of Tier 1 capital).

Under the guidelines, capital is compared to the relative risk related to the balance sheet. To derive the risk included in the balance sheet, one of four risk weights

(0%, 20%, 50% and 100%) is applied to the different balance sheet and off-balance sheet assets, primarily based on the relative credit risk of the counterparty. For example, claims guaranteed by the U.S. government or one of its agencies are risk-weighted at 0%. Off-balance sheet items, such as loan commitments and derivative financial instruments, are also applied a risk weight after calculating balance sheet equivalent amounts. One of four credit conversion factors (0%, 20%, 50% and 100%) is assigned to loan commitments based on the likelihood of the off-balance sheet item becoming an asset. For example, certain loan commitments are converted at 50% and then risk-weighted at 100%. Derivative financial instruments are converted to balance sheet equivalents based on notional values, replacement costs and remaining contractual terms. (See Notes 5 and 23 for further discussion of off-balance sheet items.) The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Management believes that, as of December 31, 1998, the Company and each of the significant subsidiary banks met all capital adequacy requirements to which they are subject.

Under the FDICIA prompt corrective action provisions applicable to banks, the most recent notification from the OCC categorized each of the significant subsidiary banks as well capitalized. To be categorized as well capitalized, the institution must maintain a total risk-based capital ratio as set forth in the following table and not be subject to a capital directive order. There are no conditions or events since that notification that management believes have changed the risk-based capital category of any of the significant subsidiary banks.

(in billions)

	Actual		For capital adequacy purposes		To be well capitalized under the FDICIA prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 1998:						
Total capital (to risk-weighted assets)						
Wells Fargo & Company	\$16.7	10.90%	≥ \$12.3	≥ 8.00%		
Norwest Bank Minnesota, N.A.	2.1	10.02	≥ 1.7	≥ 8.00	≥ \$2.1	≥ 10.00%
Wells Fargo Bank, N.A.	7.9	11.21	≥ 5.6	≥ 8.00	≥ 7.0	≥ 10.00
Tier 1 capital (to risk-weighted assets)						
Wells Fargo & Company	\$12.4	8.08%	≥ \$ 6.1	≥ 4.00%		
Norwest Bank Minnesota, N.A.	1.8	8.51	≥ .8	≥ 4.00	≥ \$1.3	≥ 6.00%
Wells Fargo Bank, N.A.	5.0	7.18	≥ 2.8	≥ 4.00	≥ 4.2	≥ 6.00
Tier 1 capital (to average assets) (Leverage ratio)						
Wells Fargo & Company	\$12.4	6.58%	≥ \$ 7.5	≥ 4.00%(1)		
Norwest Bank Minnesota, N.A.	1.8	6.25	≥ 1.1	≥ 4.00 (1)	≥ \$1.4	≥ 5.00%
Wells Fargo Bank, N.A.	5.0	6.39	≥ 3.2	≥ 4.00 (1)	≥ 3.9	≥ 5.00

(1) The leverage ratio consists of Tier 1 capital divided by quarterly average total assets, excluding goodwill and certain other items. The minimum leverage ratio guideline is 3% for banking organizations that do not anticipate significant growth and that have well-diversified risk, excellent asset quality, high liquidity, good earnings, effective management and monitoring of market risk and, in general, are considered top-rated, strong banking organizations.

Note 23

Derivative Financial Instruments

The Company enters into a variety of financial contracts, which include interest rate futures and forward contracts, interest rate floors and caps, options and interest rate swap agreements. The contract or notional amount of a derivative is used to determine, along with the other terms of the derivative, the amounts to be exchanged between the counterparties. It does not in itself represent amounts exchanged by the parties and therefore is not a measure of exposure through the use of derivatives nor of exposure to liquidity risk. The Company is primarily an end-user of these instruments. The Company also offers contracts to its customers but offsets such contracts by purchasing other financial contracts or uses the contracts for asset/liability management. To a lesser extent, the Company takes positions based on market expectations or to benefit from price differentials between financial instruments and markets.

The Company is exposed to credit risk in the event of nonperformance by counterparties to financial instruments. The Company controls the credit risk of its

financial contracts except for contracts for which credit risk is *de minimus* through credit approvals, limits and monitoring procedures. Credit risk related to derivative financial instruments is considered and, if material, provided for separately from the allowance for loan losses. As the Company generally enters into transactions only with high quality counterparties, losses associated with counterparty nonperformance on derivative financial instruments have been immaterial. Further, the Company obtains collateral where appropriate and uses master netting arrangements in accordance with FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts, as amended by FASB Interpretation No. 41, Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements.

The following table summarizes the aggregate notional or contractual amounts, credit risk amount and net fair value for the Company's derivative financial instruments at December 31, 1998 and 1997.

(in millions)	December 31,					
	1998			1997		
	Notional or contractual amount	Credit risk amount (3)	Estimated fair value	Notional or contractual amount	Credit risk amount (3)	Estimated fair value
ASSET/LIABILITY MANAGEMENT						
HEDGES						
Interest rate contracts:						
Swaps (1)	\$24,429	\$735	\$686	\$24,052	\$424	\$364
Futures	62,348	—	—	10,949	—	—
Floors and caps (1)	33,598	504	504	35,344	350	350
Options (2)	25,822	112	101	11,168	12	41
Forwards (1)	41,283	11	(58)	27,507	6	(29)
Foreign exchange contracts:						
Forward contracts (1)	168	—	(1)	548	1	(5)
CUSTOMER ACCOMMODATIONS						
Interest rate contracts:						
Swaps (1)	7,795	81	10	4,297	17	3
Futures	8,440	—	—	2,404	—	—
Floors and caps purchased (1)	5,619	42	42	4,448	22	22
Floors and caps written	5,717	—	(42)	4,567	—	(24)
Options purchased (1)	—	—	—	77	—	—
Options written	—	—	—	27	—	—
Forwards (1)	850	24	4	59	2	2
Commodity contracts:						
Swaps (1)	78	4	—	10	1	—
Floors and caps purchased (1)	4	—	—	7	—	—
Floors and caps written	4	—	—	10	—	—
Foreign exchange contracts:						
Forwards and spots (1)	3,524	37	2	2,966	50	4
Options purchased (1)	44	2	2	116	—	—
Options written	43	—	(2)	114	—	—

(1) The Company anticipates performance by substantially all of the counterparties for these or the underlying financial instruments.

(2) At December 31, 1997 the options contracts were substantially options on futures contracts which are exchange traded for which the exchange assumes the counterparty risk.

(3) Credit risk amounts reflect the replacement cost for those contracts in a gain position in the event of nonperformance by counterparties.

Interest rate futures and forward contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specific financial instrument at a predetermined price or yield. These contracts may be settled either in cash or by delivery of the underlying financial instrument. Futures contracts are standardized and are traded on exchanges. Gains and losses on futures contracts are settled daily with the exchange based on a notional principal value. The exchange assumes the risk that a counterparty will not pay and generally requires margin payments to minimize such risk. Market risks arise from movements in interest rates and security values. The Company uses 90- to 120-day futures contracts on Eurodollar deposits and U.S. Treasury notes to shorten the interest rate maturity of deposits (\$5 billion at December 31, 1998) and to reduce the price risk of interest-sensitive assets (\$57 billion at December 31, 1998), primarily mortgage servicing rights. Initial margin requirements on futures contracts are provided by investment securities pledged as collateral.

Interest rate floors and caps are interest rate protection instruments that involve the payment from the seller to the buyer of an interest differential. This differential represents the difference between a short-term rate (e.g., three-month LIBOR) and an agreed-upon rate, the strike rate, applied to a notional principal amount. By purchasing a floor, the Company will be paid the differential by a counterparty, should the current short-term rate fall below the strike level of the agreement. The Company generally receives cash quarterly on purchased floors (when the current interest rate falls below the strike rate) and purchased caps (when the current interest rate exceeds the strike rate). The primary risk associated with purchased floors and caps is the ability of the counterparties to meet the terms of the contract. Of the total purchased floors and caps for asset/liability management of \$34 billion at December 31, 1998, the Company had \$14 billion of floors to protect variable-rate loans from a drop in interest rates. The Company also uses purchased floors and caps of \$17 billion at December 31, 1998 to hedge mortgage servicing rights. Cash flows from the floors and caps offset lost future servicing revenue caused by increased levels of loan prepayments associated with lower interest rates. The remaining purchased floors and caps of \$3 billion at December 31, 1998 were used to hedge interest rate risk of various other specific assets and liabilities.

Interest rate swap contracts are entered into primarily as an asset/liability management strategy to reduce interest rate risk. Interest rate swap contracts are exchanges

of interest payments, such as fixed-rate payments for floating-rate payments, based on a notional principal amount. Payments related to the Company's swap contracts are made either monthly, quarterly or semi-annually by one of the parties depending on the specific terms of the related contract. The primary risk associated with all swaps is the exposure to movements in interest rates and the ability of the counterparties to meet the terms of the contract. At December 31, 1998, the Company had \$24 billion of interest rate swaps outstanding for interest rate risk management purposes on which the Company receives payments based on fixed interest rates and makes payments based on variable rates (e.g., three-month LIBOR). Included in this amount, \$14 billion was used to convert floating-rate loans into fixed-rate assets. The remaining swap contracts used for interest rate risk management of \$10 billion at December 31, 1998 were used to hedge interest rate risk of various other specific assets and liabilities.

Options are contracts that grant the purchaser, for a premium payment, the right, but not the obligation, to either purchase or sell the underlying financial instrument at a set price during a period or at a specified date in the future. The writer of the option is obligated to purchase or sell the underlying financial instrument, if the purchaser chooses to exercise the option. The writer of the option receives a premium when the option is entered into and bears the risk of an unfavorable change in the price of the underlying financial instrument. Of the total options for asset/liability management of \$26 billion at December 31, 1998, the Company had \$12 billion of options on futures contracts hedging mortgage servicing rights. The futures exchange assumes the risk that a counterparty will not pay. Market risks arise from movements in interest rates and/or security values. The remaining options used for interest rate risk management of \$14 billion at December 31, 1998 were used to hedge interest rate risk of various other specific assets.

The Company has entered into futures contracts and mandatory and standby forward contracts, including options on futures and forward contracts, to reduce interest rate risk on certain mortgage loans held for sale and other commitments. For forward contracts, the primary risk is the exposure to movements in interest rates and the ability of the counterparties to meet the terms of the contracts. The net unrealized loss on these futures and forward contracts at December 31, 1998 and 1997 was \$12 million and \$29 million, respectively. These contracts mature within 180 days.

Note 24

Fair Value of Financial Instruments

FAS 107, Disclosures about Fair Value of Financial Instruments, requires that the Company disclose estimated fair values for its financial instruments. Fair value estimates, methods and assumptions set forth below for the Company's financial instruments are made solely to comply with the requirements of this Statement and should be read in conjunction with the financial statements and notes in this Annual Report. The carrying amounts in the table are recorded in the Consolidated Balance Sheet under the indicated captions, except for the derivative financial instruments, which are recorded in the specific asset or liability balance being hedged or in other assets if the derivative financial instrument is a customer accommodation.

Fair values are based on estimates or calculations using present value techniques in instances where quoted market prices are not available. Because broadly traded markets do not exist for most of the Company's financial instruments, the fair value calculations attempt to incorporate the effect of current market conditions at a specific time. Fair valuations are management's estimates of the values, and they are often calculated based on current pricing

policy, the economic and competitive environment, the characteristics of the financial instruments and other such factors. These calculations are subjective in nature, involve uncertainties and matters of significant judgment and do not include tax ramifications; therefore, the results cannot be determined with precision, substantiated by comparison to independent markets and may not be realized in an actual sale or immediate settlement of the instruments. There may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results. The Company has not included certain material items in its disclosure, such as the value of the long-term relationships with the Company's deposit, credit card and trust customers, since these intangibles are not financial instruments. For all of these reasons, the aggregation of the fair value calculations presented herein do not represent, and should not be construed to represent, the underlying value of the Company.

The following table presents a summary of the Company's financial instruments, as defined by FAS 107:

(in millions)

	1998		December 31, 1997	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
FINANCIAL ASSETS				
Mortgages held for sale	\$ 19,770	\$20,015	\$ 9,706	\$ 9,821
Loans, net (1)	104,714	105,253	103,091	105,110
Nonmarketable equity investments	2,392	2,719	1,860	2,101
FINANCIAL LIABILITIES				
Deposits	\$136,788	\$136,719	\$127,656	\$127,695
Long-term debt (2)	19,673	19,948	17,260	17,293
Guaranteed preferred beneficial interests in Company's subordinated debentures	785	874	1,299	1,339
DERIVATIVE FINANCIAL INSTRUMENTS (3)				
Interest rate contracts:				
Floors and caps purchased	\$ 189	\$ 546	\$ 240	\$ 372
Floors and caps written	(42)	(42)	(24)	(24)
Options purchased	154	161	34	64
Options written	(62)	(60)	(23)	(23)
Swaps	(24)	696	1	367
Forwards	(54)	(54)	(29)	(27)
Foreign exchange contracts	1	1	5	(1)

(1) Loans are net of deferred fees on loan commitments and standby letters of credit of \$146 million and \$158 million at December 31, 1998 and 1997, respectively.

(2) The carrying amount and fair value exclude obligations under capital leases of \$36 million and \$75 million at December 31, 1998 and 1997, respectively.

(3) The carrying amounts include unamortized fees paid or received, deferred gains or losses and gains or losses on derivative financial instruments receiving mark-to-market treatment.

FINANCIAL ASSETS

SHORT-TERM FINANCIAL ASSETS

Short-term financial assets include cash and due from banks, federal funds sold and securities purchased under resale agreements and due from customers on acceptances. The carrying amount is a reasonable estimate of fair value because of the relatively short period of time between the origination of the instrument and its expected realization.

SECURITIES AVAILABLE FOR SALE

Securities available for sale at December 31, 1998 and 1997 are set forth in Note 4.

LOANS

The fair valuation calculation process differentiates loans based on their financial characteristics, such as product classification, loan category, pricing features and remaining maturity. Prepayment estimates are evaluated by product and loan rate.

The fair value of commercial loans, other real estate mortgage loans and real estate construction loans is calculated by discounting contractual cash flows using discount rates that reflect the Company's current pricing for loans with similar characteristics and remaining maturity.

For real estate 1-4 family first and junior lien mortgages, fair value is calculated by discounting contractual cash flows, adjusted for prepayment estimates, using discount rates based on current industry pricing for loans of similar size, type, remaining maturity and repricing characteristics.

For credit card loans, the portfolio's yield is equal to the Company's current pricing and, therefore, the fair value is equal to book value.

For other consumer loans, the fair value is calculated by discounting the contractual cash flows, adjusted for prepayment estimates, based on the current rates offered by the Company for loans with similar characteristics.

For auto lease financing, the fair value is calculated by discounting the contractual cash flows at the Company's current pricing for items of similar remaining term, without including any tax benefits.

Commitments, standby letters of credit and commercial and similar letters of credit not included in the previous table have contractual values of \$71,467 million, \$3,332 million and \$691 million, respectively, at December 31, 1998, and \$66,511 million, \$3,716 million and \$751 million, respectively, at December 31, 1997. These instruments generate ongoing fees at the Company's current pricing levels. Of the commitments at December 31, 1998, 60% mature within one year.

NONMARKETABLE EQUITY INVESTMENTS

There are restrictions on the sale and/or liquidation of the Company's nonmarketable equity investments, which are generally in the form of limited partnerships; and the Company has no direct control over the investment decisions of the limited partnerships. To estimate fair value, a significant portion of the underlying limited partnerships' investments are valued based on market quotes.

FINANCIAL LIABILITIES

DEPOSIT LIABILITIES

FAS 107 states that the fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, interest-bearing checking and market rate and other savings, is equal to the amount payable on demand at the measurement date. Although the FASB's requirement for these categories is not consistent with the market practice of using prevailing interest rates to value these amounts, the amount included for these deposits in the previous table is their carrying value at December 31, 1998 and 1997. The fair value of other time deposits is calculated based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for like deposits with similar remaining maturities.

SHORT-TERM FINANCIAL LIABILITIES

Short-term financial liabilities include federal funds purchased and securities sold under repurchase agreements, commercial paper and other short-term borrowings. The carrying amount is a reasonable estimate of fair value because of the relatively short period of time between the origination of the instrument and its expected realization.

LONG-TERM DEBT

The fair value of the Company's underwritten long-term debt is estimated based on the quoted market prices of the instruments. The fair value of the medium-term note programs, which are part of long-term debt, is calculated based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for new notes with similar remaining maturities.

GUARANTEED PREFERRED BENEFICIAL INTERESTS IN COMPANY'S SUBORDINATED DEBENTURES

The fair value of the Company's trust preferred securities is estimated based on the quoted market prices of the instruments.

DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments is based on the estimated amounts that the Company would receive or pay to terminate the contracts at the reporting date (i.e., mark-to-market value). Dealer quotes are available for substantially all of the Company's derivative financial instruments.

LIMITATIONS

These fair value disclosures are made solely to comply with the requirements of FAS 107. The calculations represent management's best estimates; however, due to the lack of broad markets and the significant items excluded from this disclosure, the calculations do not represent the underlying value of the Company. The information presented is based on fair value calculations and market quotes as of December 31, 1998 and 1997. These amounts have not been updated since year end; therefore, the valuations may have changed significantly since that point in time.

As discussed above, certain of the Company's asset and liability financial instruments are short-term, and therefore, the carrying amounts in the consolidated balance sheets approximate fair value. Other significant assets and liabilities, which are not considered financial assets or liabilities and for which fair values have not been estimated, include premises and equipment, goodwill and other intangibles, deferred taxes and other liabilities.

Independent Auditors' Report

The Board of Directors and Stockholders
of Wells Fargo & Company:

We have audited the accompanying consolidated balance sheet of Wells Fargo & Company and Subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, changes in stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wells Fargo & Company and Subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with generally accepted accounting principles.

KPMG LLP

KPMG LLP
Certified Public Accountants
San Francisco, California
January 19, 1999

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SALES AND SERVICE GLOSSARY OF THE NEW WELLS FARGO

BEST PRACTICES Finding the single best way to do something and adopting it wherever it applies – to improve customer service, keep customers and attract new ones, increase revenue and reduce expenses.

BETTER THAN A BANK, BETTER THAN A BROKERAGE The motto of Wells Fargo Private Client Services – its commitment to fully integrated financial services exceeding the capability of other banks and brokerages.

COMING THROUGH Wells Fargo Agent John Valentine crossed the rugged Sierra Nevada on foot in the 1860s to deliver money and mail to pioneers in a remote mining town. He set the standard for "coming through" for customers and became president of Wells Fargo.

THE COACH The stagecoach – symbol of Wells Fargo since 1852 – originally made in Concord, N.H. The body rested on thick ox-hide straps – or thoroughbraces – instead of steel springs. This suspension system gave the Concord coach its gentle rocking style that Mark Twain called a "cradle on wheels."

COMMITMENT TO DELIVER The Wells Fargo book of service standards for all business and support groups, listing our commitments to both external and internal customers and contact people who can help solve problems fast.

CROSS-SELLING Our goal is to earn 100 percent of every creditworthy customer's business. We want every customer cross sold. Every commercial and business customer, for example, should not only have a loan and a checking account with Wells Fargo but

also treasury management, leasing, international trade services, payroll, merchant card, corporate trust, employee benefits, and shareholder services. We want it all!

DOING IT RIGHT FOR THE CUSTOMER Our company-wide objective to deliver a positive customer experience every time.

DIVERSITY Achieving a competitive advantage by embracing the wide differences in all people – in age, education, ethnic origin, gender, physical abilities, race, religious beliefs, sexual and affectional orientation, work background and other perceived differences. If we value and celebrate all the ways we're different we'll make Wells Fargo more creative, more customer focused, a better place to work, and give our customers outstanding service and deliver greater value for our stockholders.

"FAST THEN, FAST NOW." Wells Fargo was founded in 1852 on the need to deliver things fast for customers. We continue to live that tradition today and also offer customers convenience, security, trust and dependability. "Fast" means respecting the time of our customers and team members.

MIND SHARE + HEART SHARE = MARKET SHARE Our real competitive advantage is what's in our hearts not just our heads. It's how much we care – about our team members, our customers and our communities. If we care, we'll provide great service. If we provide great service – day after day, month after month, year after year – we'll increase market share and become known as one of America's great companies.

OUT LOCAL THE NATIONALS, OUT NATIONAL THE LOCALSSM Our strategy to offer better products and a broader product line than our local competitors but also out-perform our national competitors by staying close to our customers in our communities, understanding their needs and providing superior service.

PEOPLE AS A COMPETITIVE ADVANTAGE Our strategy for achieving outstanding performance by attracting, motivating, developing, recognizing and retaining the very best team members – so we can become known as the premier financial services provider in each of our markets.

"RUN IT LIKE YOU OWN IT" Our managers operate like owners of their business units knowing where every dollar is spent and spending it as if it were their own money.

STORES The physical spaces where we sell and serve customers – formerly called branches or offices. Stores are the best place to sell and serve customers, where our products and services are displayed and promoted.

TEAM MEMBER Implies relationships rather than hierarchy. Everyone on the team cooperates with and depends on everyone else to sell and serve customers and earn all their business.

TEAMWORK Cross selling customers – which increases revenue, profit and our share price – requires a team effort and team work. One person can't do it alone. All members of the team work together to earn 100 percent of every customer's business and the team celebrates its success together.

WELLS FARGO & COMPANY

Assets	\$202 billion
Stores	6,000 (est.)
Team Members (active, full-time equivalent)	92,178
Customers	15 million
Common Shares Outstanding	1,644,057,803
Return on Common Equity*	14.52%
Market Capitalization	\$65.7 Billion
Price/Earnings Ratio*	22.8x
Stockholders of Record (1/31/99)	88,275
Symbol	WFC
Listings	New York Stock Exchange Chicago Stock Exchange

Shareowner Services Norwest Bank Minnesota, N.A.
1-800-468-9716

* Excludes merger-related and special charges.



Investor Relations Robert S. Strickland (415) 396-0523

Corporate Communications Lawrence P. Haeg (415) 396-3070

Corporate Secretary Laurel A. Holschuh (612) 667-8655



Forbes Global Business & Finance magazine named Wells Fargo the number one bank in the world in 1999*

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Smart Money magazine named Wells Fargo its number one stock pick in the banking segment of the financial services industry for 1999

* Based on average annual return on capital and sales growth ('93-'97), change in company's stock price for 52 weeks ending 12/14/98; net profit per team member, and securities analysts' consensus estimated forecast of '99 earnings per share growth.

WELLS FARGO DIRECT PURCHASE PLAN You may buy Wells Fargo stock directly from Wells Fargo, even if you're not now a Wells Fargo stockholder, through optional cash payments or automatic monthly deductions from a bank account. You may also have your dividends reinvested automatically. It's a convenient and economical way to increase your Wells Fargo investment. Call 1-800-813-3324 for an enrollment kit including a plan prospectus.

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ANNUAL STOCKHOLDERS' MEETING 1 p.m. Tuesday, April 27, 1999, 420 Montgomery St., San Francisco, Calif.

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